

**Kyrgyz Republic: Third Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for Modification of Performance Criteria—Staff Report; Staff Supplement and Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Kyrgyz Republic.**

In the context of the third review under the three-year arrangement under the Extended Credit Facility and request for modification of performance criteria, the following documents have been released and are included in this package:

- The staff report for the third review under the three-year arrangement under the Extended Credit Facility and request for modification of performance criteria, prepared by a staff team of the IMF, following discussions that ended on October 10, 2012, with the officials of Kyrgyz Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 14, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A staff statement of December 3, 2012 and staff supplement of November 14, 2012 updating information on recent developments.
- A Press Release summarizing the views of the Executive Board as expressed during its December 3, 2012 discussion of the staff report that completed the request and/or review.
- A statement by the Executive Director for Kyrgyz Republic.

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

Joint Staff Advisory Note of the Poverty Reduction Strategy Paper  
Letter of Intent sent to the IMF by the authorities of Kyrgyz Republic\*  
Technical Memorandum of Understanding\*

\*Also included in Staff Report

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

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# KYRGYZ REPUBLIC

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

November 14, 2012

### EXECUTIVE SUMMARY

**Political context.** While political infighting and the breakup of the coalition government in August 2012 created uncertainty, the swift appointment of a new cabinet ensured that the impact on economic policy making was limited. The new government has quickly picked up on key reforms. However, the political situation remains fragile with the main opposition party organizing rallies and calling for a change in government, primarily over issues related to the Kumtor gold mining company, the largest foreign investor.

**Background.** Growth and exports have been adversely impacted by the change in the production profile of the gold mining company Kumtor. The economy contracted by 4.6 percent in the first nine months of this year. Inflation dropped sharply to -0.5 percent year-on-year in June 2012 but pressures reemerged owing to rising international food and fuel prices. Revenue overperformance and expenditure restraint in line with expectations led to a lower deficit at end-June compared to the program. Medium-term fiscal consolidation continues to be key to maintaining macroeconomic stability. System-wide financial stability indicators have remained broadly sound but more forceful financial sector reform efforts are needed to ensure the viability of the sector. Improving governance and the business environment will also be critical to support sustained and inclusive private sector-led growth. Nonetheless, further political turmoil could result in policy slippages, hinder fiscal adjustment, and delay structural reforms. The uncertain global economic environment also poses downside risks to the near-term outlook.

**Program.** The program is broadly on track with all end-June 2012 quantitative performance criteria, indicative targets, and all but one structural benchmarks met. The authorities are requesting the fourth disbursement (SDR 9.514 million) to become available upon completion of this review.

Approved By  
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The team comprised C. Beddies (head), D. Amaglobeli, D. Ostojic, B. Shukurov (all MCD), and K. Gvenetadze (Resident Representative). Discussions were held in Bishkek during September 26–October 10, 2012. The mission met with President Atambaev, Speaker of Parliament Jeenbekov, Prime Minister Satybaldyev, First Vice Prime Minister Otorbaev, Minister of Finance Lavrova, Chairperson of the National Bank of the Kyrgyz Republic Asankojoeva, Minister of Economy Sariev, other senior government officials, and representatives of the donor community, the private sector, and civil society.

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## RECENT DEVELOPMENTS AND OUTLOOK

### A. Political Context

**1. While the political setting has stabilized with the formation of a new coalition on September 1, 2012, political uncertainty remains.** The president effectively coordinated the formation of a new coalition following the collapse of the government on August 22, 2012. The new coalition comprises three out of five parliamentary factions. The chief of the presidential staff has been appointed prime minister. The deputy prime minister in charge of economic policies was promoted to first deputy prime minister and a former deputy minister of finance was appointed minister of finance. The brief period of political instability had a limited impact on economic policy making, and economic policies are not expected to change materially going forward. However, recent rallies of the main opposition party, which calls for a change in government over Kumtor-related issues, suggest that the political environment remains fragile.<sup>1</sup>

### B. Economic Developments

**2. Growth and exports have been adversely impacted by the change in Kumtor's gold production profile (Figure 1):**

- The economy shrank by 4.6 percent in the first nine months of this year owing to (i) geological factors leading to a deferral of a third of this year's gold production to 2013–14, and (ii) the back loading of 2012 production to the fourth quarter. The gold-mining sector contracted by 63 percent. Nongold growth reached 3.8 percent during the same period, driven by manufacturing, construction, and services.
- Headline inflation dropped sharply to -0.5 percent year-on-year in June 2012, driven by falling international food prices. However, the recent increase in international food and fuel prices has led to upward pressure on domestic inflation. As a result, headline inflation rose to 4 percent year-on-year in September 2012. Core inflation declined slightly but remains elevated at 10 percent.
- The current account deficit increased to about 10 percent of GDP in the first half of 2012 from 6.3 percent in 2011, reflecting a decline in gold exports. Buoyant tourism activity in the summer helped limit the rise in the current account deficit.

<sup>1</sup> A state commission that was formed following the issuance of the June 2012 Parliamentary Commission's Report on Kumtor's violation of operational and environmental standards is examining Kumtor's compliance with those standards. Centerra Gold Inc, which is Kumtor's parent company, conducted an independent assessment of the report's findings and announced on October 9, 2012 that the report's allegations were unfounded.

### 3. Despite a slump in gold production and delays in donor financing, monetary and fiscal policies remained prudent:

- Revenue overperformance led to a lower-than-programmed deficit at end-June 2012. Expenditures were in line with expectations. Customs revenues were higher than expected because imports of fuels and vehicles increased sharply in the first six months of 2012 despite weak domestic demand. Customs collections also benefitted from administrative measures that moved customs valuation from weight to price. Moreover, under the revenue-smoothing agreement with Kumtor, som 1.4 billion have been prepaid in Q2 2012, of which som 0.5 billion and som 0.9 billion had been earmarked for Q4 2012 and 2013, respectively. The government also received windfall revenues in overdue military base lease payments. As a result, the end-June deficit was som 3.1 billion, compared with the adjusted program target of som 7 billion.
- The National Bank of the Kyrgyz Republic (NBKR) maintained tight monetary policy. The end-June 2012 net international reserves (NIR) target was met with a wide margin because of the advance payments and windfall revenues but also because of lower than expected net interventions in the foreign exchange market (the NBKR practically did not intervene in the second quarter). To offset this increase in net foreign assets, the NBKR expanded open market operations. In addition, the lower-than-expected fiscal deficit contributed to the decline in net domestic assets (NDA) and the target was met comfortably. As a result, reserve money grew by 13.5 percent year-on-year at end-June 2012, compared to 16.7 percent under the program.

**4. System-wide financial stability indicators have remained broadly sound.** Deposits grew by 33 percent year-on-year as of August 2012. Strong deposit growth has allowed private sector credit to expand by 22 percent during the same period. Banks remain well capitalized and liquid, and nonperforming loans continued to decline (Text Table 1).

Text Table 1. Kyrgyz Republic: Financial Soundness Indicators for the Banking System, 2009–12

	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
<b>Capital adequacy</b>											
Regulatory capital to risk-weighted assets	33.5	31.7	25.4	23.1	30.4	30.4	28.2	29.7	30.3	29.7	27.3
Capital to total assets	20.5	19.6	18.0	16.0	19.7	20.1	18.7	19.8	20.1	19.4	17.9
<b>Asset quality</b>											
Nonperforming loans (NPLs) to gross loans 1/	8.2	7.9	13.7	16.8	15.8	13.8	12.3	11.4	10.2	9.9	9.0
Provisions to NPLs 1/	58.4	57.5	52.8	62.7	67.7	59.6	59.8	59.2	61.6	60.3	62.3
<b>Earnings and profitability</b>											
Return on equity 2/	13.6	12.5	-58.0	-51.3	7.1	13.3	14.4	14.6	17.7	15.0	16.9
Return on assets 2/	2.5	2.4	-11.2	-9.3	1.1	2.5	2.7	2.7	3.0	2.7	2.7

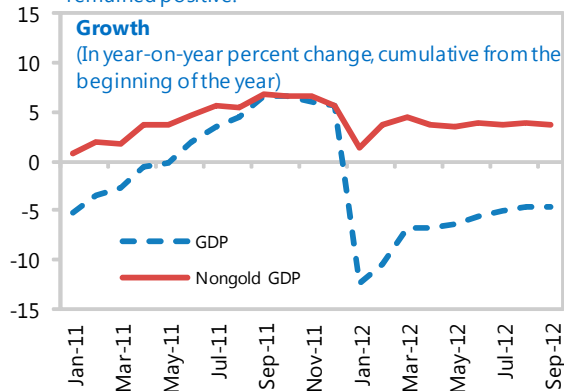
Source: National Bank of the Kyrgyz Republic.

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

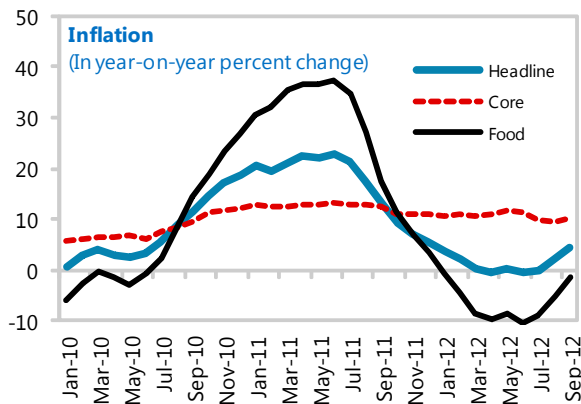
2/ AUB is included.

**Figure 1. Kyrgyz Republic: Recent Economic Developments, 2010–12**

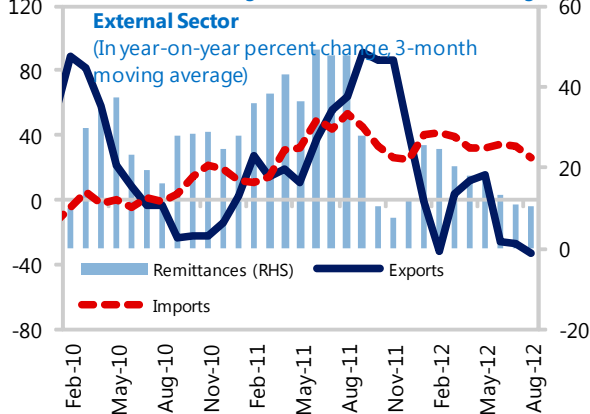
The decline in gold production contributed to large swings in output in H1 2012, while nongold growth still remained positive.



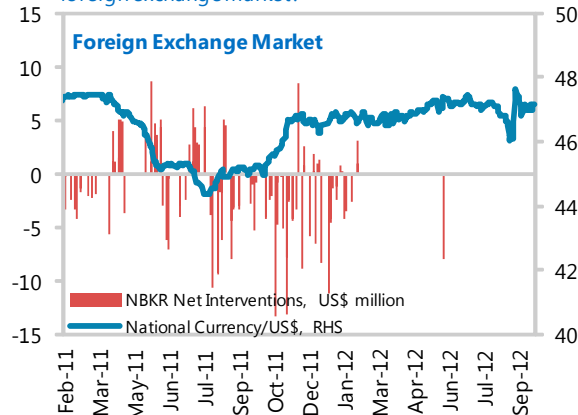
Headline inflation started to rise but is still low while core inflation remains elevated.



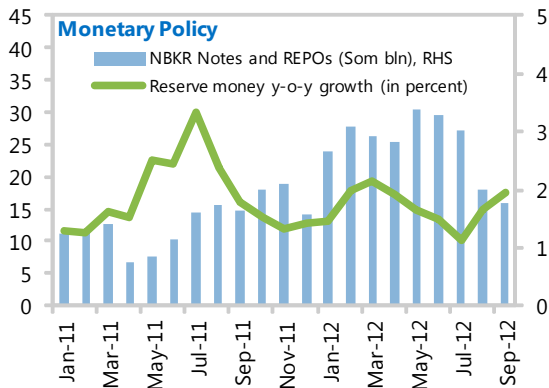
With lower gold production, export growth deteriorated, while growth in remittances is slowing.



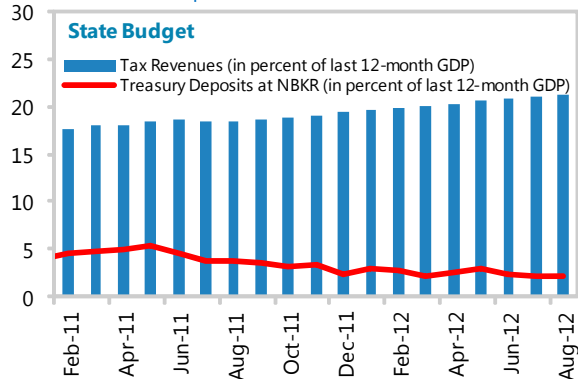
The NBKR generally suspended interventions in the foreign exchange market.



The NBKR continues to absorb excess liquidity



Improvements in tax administration and tax policy measures have helped strengthen revenue collection; the treasury maintains its deposits at NBKR at comfortable levels.



Sources: Kyrgyz authorities, and IMF staff estimates.

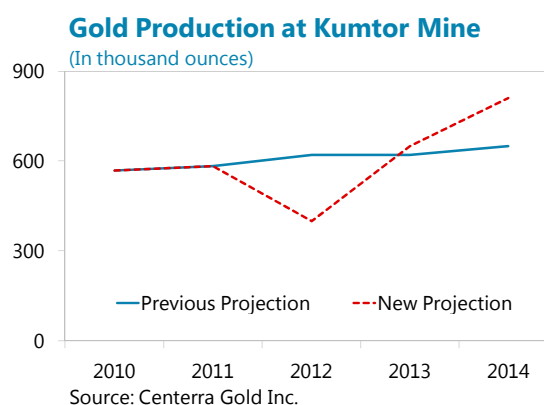
## C. Program Implementation

**5. The program remains broadly on track.** All end-June 2012 quantitative performance criteria and indicative targets were met (Table 13). The structural benchmarks on disseminating Zalkar bank's prospectus and completing its valuation, and adopting an instruction for introducing a commitment control system based on cash limits have also been observed (Table 14). The organizational structure of the ministry of finance has been revamped consistent with IMF technical assistance advice. While the authorities have made considerable progress in drafting amendments to the anti-money laundering and combating the financing of terrorism (AML/CFT) law and the relevant provisions of the Criminal Code to strengthen the AML/CFT framework in line with IMF technical assistance advice, the relevant benchmark was not met and more time is needed to complete this work. The authorities have therefore asked to extend the deadline for its submission to parliament to end-December 2012. The authorities are making progress toward meeting the structural benchmarks scheduled for the remainder of this year but requested to re-phase the submission of the Banking Code to the government to end-April 2013 and to parliament to end-September 2013.

## D. Medium-Term Outlook and Risks

**6. Macro projections for the medium term have changed to reflect the shift in the timing of gold production:**

- Growth is projected at 1 percent this year compared to 5 percent at the time of the second review. In 2013 and 2014, growth is projected at 8.5 and 7.5 percent, respectively, with a significant part of the deferral of gold production falling to 2014.
- Higher international food and fuel prices have put upward pressure on inflation. However, inflation is still projected at 8 percent this year, because (i) the decline in inflation in the first half of this year was steeper than projected, (ii) the exogenous food price shock is expected to be temporary, and (iii) monetary policy is projected to remain tight. In 2013–14, inflation is projected at 7–7½ percent.
- The current account deficit is projected to widen to 9 percent in 2012 due to higher oil prices and the revised outlook for gold exports. In 2013–14, higher gold exports are projected to drive the current account deficit down. Gold-related capital investments are not expected to be affected.



The authorities consider these projections appropriate. In particular, they expect low growth this year and a strong recovery in the medium term and project single digit inflation.



**7. Risks.** Further political turmoil could result in policy slippages, hinder fiscal adjustment, and delay structural reforms. The financial stress in the euro area could spill over to the Kyrgyz Republic via reduced external demand and lower remittances from Russia, the main economic partner (see Box on global uncertainties in Country Report 11/354). International food and fuel prices could rise by more than currently projected, pushing up inflation and aggravating external vulnerabilities, and leading to social tensions. On the upside, high gold prices, which typically move countercyclical to global economic performance, and increased remittances in the event of higher oil prices, could be a mitigating factor.

## POLICY DISCUSSIONS

### A. Fiscal Policy

**8. Despite the lower growth and shortfalls in gold-related revenues, the overall fiscal deficit for 2012 remains achievable, but shortfalls in grants and financing will require cuts in non-priority expenditure (LOI 14).** The overall fiscal deficit target remains unchanged at 6 percent of GDP compared with the second review (som 17,629 million compared with som 18,145 million). Excluding energy infrastructure projects, the fiscal deficit is now forecast at 3.8 percent of GDP compared to 4.6 percent at the time of the second review.

- The revenue-smoothing arrangement with the Kumtor gold company and better-than-expected customs revenues related to higher oil imports and improved customs administration have offset the shortfall in revenues from lower gold production and half of the remaining shortfall of som 2.5 billion related to lower program grants. The latter was due to delays in implementing structural conditionality under donor-supported programs. The conditionality is expected to be completed next year.
- With the decline in the overall resource envelope, the authorities will cut spending on goods and services and domestic capital projects. At the same time, critical social expenditures will be safeguarded. To support poverty reduction efforts, the guaranteed monthly minimum income has been raised by over 50 percent to som 580 (US\$12). This will result in an increase in outlays for the existing social assistance programs to som 2,888 million (1 percent of GDP) by end-2012 and to som 4,449 million (1.3 percent of GDP) by end-2013 (LOI Table 1).
- The authorities have increased allocations for foreign-financed energy infrastructure projects, taking into account their faster-than-expected implementation. In addition, two small extra-budgetary funds and a new micro-lending project have been integrated into the general government budget framework (som 1.5 billion) but these operations are deficit neutral.

**9. The new government confirmed its commitment to fiscal consolidation in the medium term and emphasized that the 2013 budget will be guided by conservative revenue forecasts, non-priority expenditure restraint, and social considerations (Text Table 2) (LOI 15).** The fiscal deficit excluding energy infrastructure projects is projected at 3.2 percent and 2.6 percent of GDP in 2013 and 2014, respectively. The overall fiscal deficit is projected to decline from 6 percent of GDP in

2012 to 5.3 percent of GDP in 2013 and further down to 4 percent of GDP in 2014. This path would ensure fiscal and debt sustainability and support the NBKR's efforts to keep inflation at bay.

**10. Total revenues are expected to decline relative to GDP in 2013–14, largely owing to lower fuel imports.**

- Because the gold production shock is temporary, gold-related tax revenues are expected to recover in the next two years. However, the authorities agreed with staff that the current high growth in customs revenues may not be sustainable and is expected to slow down, mainly reflecting lower fuel imports. Nontax revenues in percent of GDP are also expected to decline because of one-off payments collected during 2012 and the reform to regularize government provided fee-based services.
- Strengthening tax administration and increasing compliance remains therefore critical. In particular, a formal compliance improvement plan will be implemented with performance indicators covering three to five sectors that pose a significant revenue compliance risk. The IMF is providing technical assistance in this area. In addition, in light of the effectiveness of the new reporting requirements introduced for the ten largest state-owned enterprises (SOEs), the coverage will be expanded to 20 by end-March 2013 (structural benchmark), with the authorities identifying the SOEs to be affected based on their systemic importance. The proposed expansion of the list should help gradually mobilize additional revenues and reduce potential fiscal costs through improved monitoring (LOI ¶19).
- The authorities were contemplating a gradual reduction of the turnover tax rate and introduction of temporary tax exemptions for new businesses in remote regions. Staff highlighted that this proposal entails significant risks, adds distortions, and undermines fiscal consolidation efforts. The authorities agreed and are committed to consulting with staff on any such tax policy measures to ensure consistency with their program commitments.

**11. Total expenditures are expected to decline driven by current expenditures while capital spending is expected to rise (relative to GDP).** The pension increase in 2013 will continue to be tied to the changes in the minimum subsistence level. In their efforts to make the pension system more equitable and affordable, the authorities have developed a pension reform concept paper. The government stressed the importance of increasing wages in segments of the public sector but confirmed its commitment to reducing the overall wage bill in percent of GDP. To that effect, the ongoing civil service reform is expected to generate the needed savings. In addition, the ongoing World Bank and Asian Development Bank-supported public procurement reform, including the planned introduction of e-procurement, will also generate significant fiscal savings by reducing outlays on goods and services.

Text Table 2. Kyrgyz Republic: General Government Budget, 2011–14  
(In percent of GDP)

	2011		2012		2013		2014	
	Act.	2nd Rev.	Proj.	2nd Rev.	Proj.	2nd Rev.	Proj.	
Total revenue and grants	33.3	32.9	34.4	31.9	33.0	31.3	31.5	
Total revenue	30.2	30.6	33.0	30.5	31.4	30.4	30.7	
Tax revenue	24.2	25.2	26.9	25.3	26.3	25.3	25.7	
Nontax revenue	5.7	5.1	5.7	4.9	4.8	4.8	4.7	
Capital revenue	0.3	0.3	0.4	0.3	0.4	0.3	0.4	
Grants	3.2	2.2	1.5	1.4	1.6	0.8	0.8	
Total expenditures and net lending	38.0	38.8	40.5	37.7	38.3	35.3	35.5	
Current expenditures	32.4	32.8	34.0	31.2	31.3	30.0	29.7	
Capital expenditures	5.8	6.2	6.7	6.4	7.0	5.3	5.9	
Of which: Energy infrastructure projects	0.7	1.4	2.3	2.0	2.0	1.4	1.4	
Net lending	-0.1	-0.1	-0.3	0.0	0.0	0.0	0.0	
Discrepancy	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	
Overall balance	-4.8	-6.0	-6.0	-5.8	-5.3	-4.0	-4.0	
Primary balance excluding grants	-7.0	-7.1	-6.4	-6.2	-5.8	-4.0	-3.9	
Overall balance excluding energy infrastructure projects	-4.1	-4.6	-3.8	-3.8	-3.2	-2.6	-2.6	
Financing	4.8	6.0	6.0	5.8	5.3	4.0	4.0	
External	3.4	3.6	4.1	5.4	4.7	2.6	3.2	
Of which: Energy infrastructure projects	0.7	1.4	2.3	2.0	2.0	1.4	1.4	
Domestic (including privatization)	1.4	2.4	1.9	1.4	0.6	1.4	0.8	
Of which: Privatization	0.1	1.2	0.1	1.1	0.3	0.7	0.6	
Use of KRDF investments abroad	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<i>Memorandum item:</i>								
GDP (in billions of soms)	273.1	303.9	291.9	338.7	340.1	383.3	390.4	
Total public debt	52.4	51.2	52.0	51.9	51.3	50.5	49.3	
Gold related revenues	2.8	2.5	1.7	...	...	...	...	
Of which: Dividend payments	0.5	0.5	0.1	...	...	...	...	
Of which: Tax prepayments	0.0	0.0	0.3	...	...	...	...	

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

## 12. Public financial management (PFM) reforms have advanced but more work is needed.

These reforms include the adoption of an instruction for introducing through the Treasury Management Information Systems a commitment control system based on cash limits and a unified chart of accounts. The approval of a new organizational structure of the ministry of finance was also an important step. However, the authorities agreed that these reforms need to be fully realized. The authorities are expected to extend treasury coverage to include the social fund and introduce comprehensive cash planning. This and the planned introduction of the treasury single account will significantly strengthen transparency and efficiency of treasury operations. A Budget Code that consolidates all fiscal legislation into a single document has been developed with technical assistance from the World Bank. The Budget Code has also benefited from comments provided by IMF staff.

## 13. Notwithstanding higher-than-expected public sector borrowing (US\$100 million from Turkey on concessional terms), the debt burden remains manageable.

Debt sustainability remains the anchor of fiscal policy and should be a key consideration when considering future energy sector projects.

- The DSA update (Annex I) concludes that the Kyrgyz Republic remains at a moderate risk of debt distress. The authorities have recently agreed with Russia on a write off of debt in the amount of US\$188.9 million this year and a gradual write off of the remaining US\$300 million over 2016–25. Intra-governmental procedures for the write off of Turkish debt in the amount of US\$49.2 million have also been completed. Moreover, the authorities successfully renegotiated the loan for the

second phase of the energy infrastructure project to ensure concessionality. In this regard, they requested to modify the debt limit by introducing a zero ceiling on contracting or guaranteeing of new nonconcessional external debt by the public sector (LOI ¶18).

- While energy security is a prime concern of the authorities, substantial resources are needed to finance large-scale hydro projects. Therefore, sound feasibility studies will be instrumental in determining the economic viability of such projects. Moreover, to ensure macroeconomic stability, the financing arrangements for these projects need to take into account the impact on the country's debt sustainability outlook.
- The medium-term debt management strategy, which was adopted as part of the conditionality under the ECF arrangement, is being updated to reflect comments from Fund and World Bank staffs (LOI ¶17).
- The authorities are improving the operational infrastructure for the primary market of government securities at the NBKR with a view to developing the domestic debt market. Staff recommended and the authorities agreed that the NBKR should remain the government agent for conducting primary auctions and the central depository for all government securities (LOI ¶17).
- To further deepen the domestic debt market, the authorities are considering various incentives for primary dealers of government securities to encourage their participation. The authorities remain committed to discussing any new proposals with Fund staff. The planned Financial Stability Assessment Program in the second half of 2013 will be instrumental in this regard.

## B. Monetary Policy

### 14. The NBKR will maintain tight monetary conditions to keep inflation in single digits in 2012 and beyond.

- Despite rising food prices, headline inflation is still low at 4 percent. However, pressures stem from the pension increase this fall. The NBKR will continue to use open market operations to ensure that the end-year core inflation and headline inflation projections of 9 and 8 percent, respectively, are met. The NBKR remains vigilant against risks and continues to monitor core inflation closely. In case the food supply shock turns out to be more prolonged, the NBKR stands ready to tighten monetary policy further to prevent second round effects (LOI ¶10).
- The flexible exchange rate regime has served the Kyrgyz Republic well, and the NBKR will continue to limit interventions in the foreign exchange market to smoothing short-term fluctuations. In this context, the NBKR expects to intervene during the remainder of the year in response to anticipated seasonal short-term pressure on the exchange rate. These interventions will help absorb liquidity.

**15. Monetary and foreign exchange management is expected to benefit from IMF technical assistance in inflation modeling and monetary tools.** In particular, the NBKR is interested in improving near- and medium-term inflation forecasting. New monetary tools, once

fully developed and implemented in line with best practice, will help strengthen the monetary policy transmission mechanism. In addition, NBKR's capacity in international reserve management is expected to be strengthened with IMF technical assistance. The NBKR and the ministry of finance will continue the close cooperation to facilitate liquidity management.

## C. Banking Sector Policies

**16. The authorities are working toward addressing banking sector vulnerabilities but more forceful reform efforts are needed to restore confidence in the system.** This could generate more private savings and ultimately result in higher economic growth.

- The government has announced December 11, 2012 as the auction date for Zalkar Bank (LOI ¶12). Should the sale of the bank fail, prompt resolution of Zalkar will be essential to strengthen confidence in the banking sector. The authorities noted, however, that liquidation of Zalkar Bank will be politically difficult and may put at risk some 1.6 billion of government deposits.<sup>2</sup> Nonetheless, staff noted that revoking Zalkar's license and starting the bank's liquidation (in case the sale of the bank is unsuccessful) will be the only remaining option to resolve the bank. While the proceeds from liquidation are expected to cover part of the deposits, the remainder will have to be recognized as loss.
- The authorities will revise the current sales strategy of the Savings and Settlement Company (SSC) (structural benchmark) to ensure that the majority of its shares are privatized over the medium term (LOI ¶12). In this regard, staff recommended considering technical assistance from the authorities' development partners. The authorities agreed with staff that the development lending funded by the government may jeopardize the stability of the banking system. To this end, such development lending will be gradually phased out and SSC's growth effectively monitored and controlled going forward. The authorities are not planning any new capital injections.
- Work on the Banking Code is progressing slower than anticipated. The Swiss State Secretariat for Economic Affairs-funded resident legal advisor has started work end-August 2012, later than expected. A key priority of the advisor is to work with the NBKR on the completion of the draft Banking Code and to provide training to enhance the capacity of the NBKR's legal department. Staff therefore supports the authorities' request to re-phase the structural benchmarks related to the submission of the Banking Code to the government to end-April 2013 and to parliament to end-September 2013 (LOI ¶12).

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<sup>2</sup> The Ministry of Finance's deposits in Zalkar Bank include Som 800 million taken over from the Social Fund. In 2011, the Ministry of Finance issued a long-term bond to Zalkar Bank, which was subsequently purchased by the NBKR in the secondary market (the bond was issued at market rates and can be used by the NBKR for monetary policy purposes). Subsequently, Zalkar Bank repaid its obligation to the Social Fund while the Ministry of Finance became a deposit holder.

**17. The work on strengthening the AML/CFT regime will continue with Fund technical assistance.** The September 2012 technical assistance mission discussed with the authorities the draft provisions of the Criminal Code, the Administrative Liability Code, the Terrorist Assets Freezing Regulations, and the AML/CFT Law. The parliament has recently adopted some of the provisions of the Criminal Code. However, to ensure full compliance with international standards, more internal consultation is needed before other provisions of the Criminal Code and the draft AML/CFT Law can be submitted to parliament. Staff supports to delay the relevant structural benchmark to end-December 2012 (LOI ¶13).

## D. Structural Reforms

**18. The authorities are pressing ahead with reforms to improve governance and the business environment.**

- Efforts to reduce public sector bureaucracy and to improve the quality and efficiency of public services are ongoing. The government is working toward strengthening property rights and making efforts in combating corruption. In August 2012, parliament passed a new anticorruption law which envisages a more active involvement of civil society in the implementation of the government's anticorruption strategy. The recently released World Bank Doing Business 2013 Report indicates that the Kyrgyz Republic is among the top ten countries that have improved their rankings substantially since 2005. Nonetheless, the authorities need to do more to ensure strong implementation of the new laws and regulations (Box 4 in Country Report 11/155).
- In cooperation with the World Bank, the Asian Development Bank, and USAID, the authorities have developed and adopted a medium-term energy sector strategy for 2012–17. The strategy aims at improving the public administration of the sector and increasing energy efficiency and output. In addition, to move toward a financially viable energy sector, the government has designed a new surcharge on electricity tariffs for servicing the debt obligations of the energy companies related to investments in transmission lines.
- To increase the attractiveness of the Kyrgyz Republic as a tourist destination and attracting more investment, a visa-free regime for citizens of 44 countries has been introduced recently.

**19. The State Development Bank (SDB) law has been approved by parliament but its establishment has been halted because of resource constraints.** Consistent with their commitments, the authorities will continue close cooperation with IMF staff and other donors on the set-up and operations of the SDB (LOI ¶15). The government is also studying successful examples of development banks in other countries and will reflect on their experience. Staff reiterated that all regulations of the SDB will need to be consistent with international best practice and principles of good governance and transparency. The authorities will ensure that all public resources to the SDB will be channeled through the budget.

## PROGRAM ISSUES

**20. Program design and modification of performance criteria.** The review schedule and timing of disbursements is outlined in Table 11. Revised and new quantitative performance criteria (QPC), indicative targets, are proposed for December 2012 and March, June, September, and December 2013 (LOI Table 1). The authorities are requesting a downward modification of the QPC on the NBKR's net international reserves for end-December 2012 reflecting the external financing shortfalls with the subsequent modification of the QPC on the NBKR's net domestic assets. The authorities are also requesting a downward modification of the QPC on general government overall deficit target for end-December 2012 to reflect the external financing shortfalls and commensurate expenditure cuts. In addition, in light of the successful renegotiation of the borrowing terms on the second phase of the foreign-financed energy infrastructure project, the authorities are requesting to modify the debt limit by introducing a zero ceiling on contracting or guaranteeing of new nonconcessional external debt by the public sector. The structural conditionality—existing and proposed—is summarized in Table 14 and LOI Table 2.

**21. Program monitoring will continue to be performed on a semi-annual basis.** The fourth review will be based on continuous and end-December 2012 QPCs and the fifth review on continuous and end-June 2013 QPCs. Structural conditionality will focus on macro-critical areas, particularly reducing fiscal risks stemming from state-owned enterprises, completing problem bank resolution, and strengthening the bank resolution legal and AML/CFT frameworks (LOI Tables 1 and 2).

**22. Financing.** Donors and the Fund are expected to fill the estimated balance of payments gap in 2012 and 2013 (Text Table 3). As highlighted in the ECF second review documents, the fourth disbursement of the ECF will be directed to the budget.

Text Table 3. Kyrgyz Republic: Balance of Payment Financing Gaps, 2012–14

	2012		2013		2014	
	2nd Rev.	Proj.	2nd Rev.	Proj.	2nd Rev.	Proj.
	(In millions of U.S. dollars)					
Financing Gap	121.2	37.0	137.1	126.1	106.2	122.3
Identified budget support	92.1	8.0	0.0	97.3	0.0	0.0
World Bank	36.3	2.1	0.0	43.2	0.0	0.0
Asian Development Bank	20.0	0.0	0.0	20.0	0.0	0.0
EURASEC Anti Crisis Fund	0.0	0.0	0.0	0.0	0.0	0.0
European Union	35.8	5.9	0.0	34.1	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified budget support	0.0	0.0	108.1	0.0	91.7	107.9
IMF ECF disbursement	29.1	29.0	29.0	28.8	14.5	14.4
	(In percent of GDP)					
Financing Gap	1.9	0.6	2.0	1.8	1.4	1.6
Identified budget support	1.4	0.1	0.0	1.4	0.0	0.0
World Bank	0.6	0.0	0.0	0.6	0.0	0.0
Asian Development Bank	0.3	0.0	0.0	0.3	0.0	0.0
EURASEC Anti Crisis Fund	0.0	0.0	0.0	0.0	0.0	0.0
European Union	0.6	0.1	0.0	0.5	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified budget support	0.0	0.0	1.6	0.0	1.2	1.4
IMF ECF disbursement	0.5	0.5	0.4	0.4	0.2	0.2
<i>Memorandum item:</i>						
GDP (in millions of U.S. dollars)	6,442	6,186	6,970	6,998	7,657	7,799

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

## STAFF APPRAISAL

**23. Adherence to the policies underpinning the ECF-supported program continued to play a pivotal role in maintaining macroeconomic stability.** While overall economic growth has been negative so far this year because of the partial deferral of gold production to 2013–14, nongold growth was broad-based at about 4 percent, supported by remittances inflows and credit growth. Inflation recently started to increase owing to higher food and fuel prices but is still low at 4 percent. Fiscal consolidation remains on track and system-wide financial indicators continue to be stable. Nonetheless, downside risks remain reflecting the uncertain global economic outlook and still fragile political landscape.

**24. Improving the business climate, good governance, and strong institutions remain key to sustaining strong growth over the medium term.** Building strong public institutions, creating a vibrant public service, ensuring compliance with the regulatory framework, and combating corruption will help remove significant barriers to growth. The authorities' cooperation with staff on developing the SDB law, which was approved by parliament, is commendable. Staff stands ready to continue to provide technical support to the authorities in setting up the SDB to ensure that it is in line with the objectives of the ECF-supported program and will not jeopardize macro-financial stability.

**25. Fiscal consolidation with strong revenue measures and prudent expenditure policies is instrumental in safeguarding macroeconomic stability.** Efforts to strengthen tax administration and reduce noncompliance should help raise additional revenues. Continued monitoring of SOE finances will help mobilize additional increased dividend payments to the budget and reduce the risk of potential fiscal costs. Any new tax policy initiatives to reduce the tax burden should be accompanied by offsetting measures. Restraining non-priority expenditures and preserving social outlays are essential elements of the 2013 budget and beyond. The civil service reform should continue to help generate savings. Outlays on goods and services need to be reduced further including through the planned introduction of e-procurement to reduce wasteful spending and generate fiscal savings.

**26. Tight monetary policy is warranted to keep inflation at bay.** With the second round of the pension increase, underlying inflationary pressures remain. The NBKR needs to remain vigilant against risks and continue to monitor inflation closely. In the event of a more prolonged food supply shock, the NBKR will need to tighten monetary policy further to prevent second round effects. Close coordination between the monetary and fiscal authorities remains key to facilitate liquidity management and ensure a smooth implementation of monetary policy.

**27. The banking sector is generally stable, but more forceful reform efforts are needed to ensure the sector's long-term viability.** Development lending funded by the government in SSC Bank needs to be gradually phased out to ensure that the stability of the bank and the banking system as a whole is not jeopardized. To that effect, SSC Bank's growth will need to be closely monitored and controlled. The authorities need to press ahead forcefully with the early resolution of



Zalkar Bank and completion of the ongoing legal reforms in line with revised program commitments. These reforms will play a pivotal role in restoring confidence in the system, leveling the playing field and setting the stage for improved investor confidence and higher private savings. Strengthening the AML/CFT regime remains essential to ensure full compliance with international standards

**28. Staff recommends completion of the third review** and approval of the request for modification of the performance criteria for end-December 2012 and the continuous performance criterion on contracting or guaranteeing new nonconcessional external debt by the public sector, and establishment of new performance criteria for end-June 2013. The modified performance criteria and policies for the remainder of 2012 and 2013 are appropriate to achieve the program's objectives.

**Table 1. Kyrgyz Republic: Selected Economic Indicators, 2010–17**

I. Social and Demographic Indicators								
Population (million, 2010)	5.5		GINI Index (2009)					36.2
Unemployment rate (official, 2010)	8.6		Life expectancy at birth in years (2010)					69.1
Poverty rate (2010)	33.7		Adult literacy rate (percent of population)					99.0
GNI per capita (2010, Atlas method, US\$)	830		Infant mortality (per 1000 live births)					32.8
II. Economic Indicators								
	2010	2011	2012	2013	2014	2015	2016	2017
	Act.	Act.	Proj.					
Nominal GDP (in billions of soms)	220.4	273.1	291.9	340.1	390.4	427.4	472.7	523.7
Nominal GDP (in millions of U.S. dollars)	4,794	5,920	6,186	6,998	7,799	8,289	8,902	9,575
Real GDP (growth in percent)	-0.5	5.7	1.0	8.5	7.5	3.3	5.0	5.0
Nongold real GDP (growth in percent)	-2.1	5.6	4.8	4.2	5.2	5.5	5.1	5.1
GDP per capita (in U.S. dollars)	875	1,070	1,107	1,240	1,368	1,440	1,531	1,630
Consumer prices (12-month percent change, eop)	18.9	5.7	8.0	7.5	7.1	6.0	6.0	5.0
Consumer prices (12-month percent change, average)	7.8	16.6	2.8	9.5	7.5	6.6	6.0	5.5
Investment and savings (in percent of GDP)								
Investment	23.9	24.3	25.4	25.9	24.8	25.2	25.3	25.4
Public	5.4	5.8	6.7	7.0	5.9	6.3	6.1	5.7
Private	18.5	18.6	18.7	18.9	18.9	19.0	19.2	19.7
Savings	17.5	18.1	16.4	19.4	20.3	22.5	22.6	23.2
Public	-0.4	1.0	0.4	1.7	1.9	3.7	3.8	4.2
Private	17.9	17.1	16.0	17.7	18.4	18.9	18.9	19.0
Savings-investment balance	-6.4	-6.3	-9.0	-6.5	-4.5	-2.7	-2.6	-2.3
General government finances (in percent of GDP) 1/								
Total revenue and grants	30.5	33.3	34.4	33.0	31.5	32.1	32.2	32.0
Of which: Tax revenue	22.3	24.2	26.9	26.3	25.7	25.6	25.7	25.6
Total expenditure (including net lending)	36.6	38.0	40.5	38.3	35.5	34.7	34.5	33.5
Of which: Current expenditure	31.0	32.4	34.0	31.3	29.7	28.4	28.4	27.7
Capital expenditure	5.4	5.8	6.7	7.0	5.9	6.3	6.1	5.7
Overall fiscal balance	-6.3	-4.8	-6.0	-5.3	-4.0	-2.6	-2.3	-1.5
Primary balance	-5.4	-3.8	-5.0	-4.2	-3.1	-1.8	-1.5	-0.7
Primary balance excluding grants	-8.2	-7.0	-6.4	-5.8	-3.9	-2.9	-2.6	-1.7
Overall balance excluding energy infrastructure projects	-6.3	-4.1	-3.8	-3.2	-2.6	-1.3	-1.4	-1.5
Total public debt 2/	60.3	52.4	52.0	51.3	49.3	49.5	49.1	47.1
Banking sector								
Reserve money (percent change, eop)	18.4	12.8	16.0	16.5	16.5	15.8	15.4	15.2
Broad money (percent change, eop)	21.1	14.9	18.3	16.9	16.5	16.4	16.5	16.3
Credit to private sector (percent change, eop)	6.3	20.8	17.3	18.0	19.3	19.5	19.7	19.6
Credit to private sector (in percent of GDP)	13.0	12.2	13.4	13.6	14.1	15.4	16.6	18.0
Velocity of broad money 3/	3.1	3.4	3.1	3.1	3.0	2.9	2.7	2.6
Interest rate 4/	5.5	6.6	...	...	...	...	...	...
External sector								
Current account balance (in percent of GDP)	-6.4	-6.3	-9.0	-6.5	-4.5	-2.7	-2.6	-2.3
Export of goods and services (in millions of U.S. dollars)	2,526	3,482	3,700	4,230	4,963	5,404	5,998	6,711
Export growth (percent change)	-1.1	37.9	6.3	14.3	17.3	8.9	11.0	11.9
Import of goods and services (in millions of U.S. dollars)	3,917	5,160	5,919	6,400	7,077	7,699	8,462	9,297
Import growth (percent change)	6.0	31.7	14.7	8.1	10.6	8.8	9.9	9.9
Gross International reserves (in millions of U.S. dollars)	1,716	1,831	1,966	2,213	2,449	2,781	3,076	3,504
Gross reserves (months of next year imports, eop)	4.0	3.7	3.7	3.8	3.8	3.9	4.0	4.0
External public debt outstanding (in percent of GDP)	55.1	48.1	46.8	46.2	44.5	45.4	44.8	43.1
External public debt service-to-export ratio (in percent)	3.6	2.8	2.5	2.6	2.3	2.2	2.3	2.4
Memorandum items:								
Exchange rate (soms per U.S. dollar, average)	46.0	46.1	...	...	...	...	...	...
Real effective exchange rate (2005=100) (average)	101.7	108.3	...	...	...	...	...	...
Gold related tax receipts of the general government (percent of GDP)	2.0	2.2	...	...	...	...	...	...

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/ Calculated at end-period exchange rates.

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

4/ Interest rate on three-month treasury bills.

**Table 2. Kyrgyz Republic: Balance of Payments, 2010–17**  
(In millions of U.S. dollars)

	2010	2011	2012	2013	2014	2015	2016	2017
	Act.	Act.			Proj.			
Current account balance 1/	-306	-371	-558	-452	-350	-223	-235	-217
Excluding transfers	-1,697	-2,208	-2,562	-2,656	-2,775	-2,891	-3,116	-3,271
Trade balance	-1,160	-1,657	-2,218	-2,193	-2,157	-2,501	-2,790	-3,095
Exports, fob	1,833	2,365	2,413	2,801	3,309	3,424	3,720	4,067
CIS countries	838	1,118	1,397	1,318	1,464	1,665	1,829	2,031
Of which: Energy products	74	131	392	201	148	160	168	177
Of which: Re-exports of consumer goods	54	94	96	107	71	39	17	6
Non-CIS countries	995	1,247	1,016	1,483	1,844	1,759	1,891	2,036
Of which: Gold	668	1,006	772	1,216	1,530	1,396	1,483	1,576
Imports, fob	2,993	4,022	4,630	4,994	5,466	5,925	6,510	7,162
CIS countries	1,590	2,018	2,502	2,629	2,850	3,062	3,330	3,619
Of which: Energy (including for re-exports)	772	865	1,315	1,309	1,346	1,417	1,511	1,615
Non-CIS countries	1,403	2,004	2,129	2,365	2,616	2,864	3,180	3,544
Of which: Goods for re-exports	49	86	87	97	64	35	16	5
Services	-231	-21	-1	23	44	206	326	509
Receipts	693	1,117	1,287	1,429	1,655	1,980	2,278	2,644
Payments	-924	-1,138	-1,288	-1,406	-1,611	-1,774	-1,952	-2,135
Income	-305	-530	-344	-486	-662	-595	-652	-685
Interest payments	-36	-31	-114	-129	-143	-156	-174	-196
Other net income	-269	-500	-229	-357	-519	-439	-478	-489
Current Transfers (net) 1/	1,391	1,837	2,004	2,204	2,425	2,668	2,881	3,054
Of which: Private	1,313	1,755	2,006	2,206	2,427	2,670	2,883	3,056
Capital Account	10	28	243	-27	-66	-35	-33	-33
Official	129	121	343	73	34	65	67	67
Private	-120	-93	-100	-100	-100	-100	-100	-100
Financial account	530	486	330	573	550	537	538	658
Commercial banks	-22	-12	-50	-50	-50	-50	-50	-50
Medium- and long-term loans (net)	22	338	54	276	228	234	212	308
Disbursement 1/	444	592	644	746	698	764	829	906
Of which: Loan financed PIP	150	198	127	192	132	152	175	242
Of which: Energy and other investments financed by China and Eurasec	0	41	140	140	110	110	77	0
Amortization	-422	-254	-591	-470	-470	-530	-616	-597
Foreign direct investment	438	694	432	451	473	453	476	499
Portfolio investment 2/	164	-161	0	0	0	0	0	0
Other (including SDR allocation)	0	0	0	0	0	0	0	0
Net short-term flows	-60	-208	-106	-105	-100	-100	-100	-100
Errors and omissions	-131	-36	136	0	0	0	0	0
Overall balance	103	107	150	93	134	279	270	408
Financing	-103	-107	-150	-93	-134	-279	-270	-408
Net international reserves	-103	-107	-187	-219	-256	-349	-318	-456
Gross official reserves (–, increase)	-112	-113	-167	-202	-236	-332	-295	-428
IMF	9	6	-20	-17	-20	-17	-23	-28
Exceptional Financing (including arrears)	0	0	0	0	0	0	0	0
Financing gap 1/	0	0	37	126	122	70	47	48
<i>Memorandum items:</i>								
GDP (in millions of U.S. dollars)	4,794	5,920	6,186	6,998	7,799	8,289	8,902	9,575
Current account balance (percent of GDP)	-6.4	-6.3	-9.0	-6.5	-4.5	-2.7	-2.6	-2.3
Current account balance excl. official transfers (percent of GDP) 1/	-8.0	-7.6	-9.0	-6.4	-4.5	-2.7	-2.6	-2.2
Growth of exports of GNFS (volume, percent)	-16.7	21.0	7.9	14.4	11.6	5.0	7.2	8.0
Growth of imports of GNFS (volume, percent)	-15.8	13.8	19.3	8.3	7.9	6.4	7.5	7.5
Terms of trade (goods, percentage change)	-8.9	-4.5	2.7	0.2	0.3	0.0	-0.1	-0.1
Gold price (U.S. dollars per ounce)	1,225	1,568	1,650	1,679	1,692	1,713	1,736	1,767
Fuel Price Index (2005=100)	146.7	193.3	195.8	192.8	186.0	179.3	173.5	167.5
External Public Debt (in millions of U.S. dollars) 3/	2,644	2,845	2,893	3,230	3,474	3,765	3,992	4,125
As percent of GDP	55.1	48.1	46.8	46.2	44.5	45.4	44.8	43.1
External public debt service-to-exports ratio 3/ 4/	3.6	2.8	2.5	2.6	2.3	2.2	2.3	2.4
Gross reserves 5/	1,716	1,831	1,966	2,213	2,449	2,781	3,076	3,504
In months of subsequent year's imports	4.0	3.7	3.7	3.8	3.8	3.9	4.0	4.0

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

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

2/ Includes return of KRDF investments abroad.

3/ Public and publicly-guaranteed debt.

4/ Net of rescheduling.

5/ Valued at end-period exchange rates. The discrepancy between the difference in year-end stocks and the change in reserves under financing is caused by movements in prices and exchange rates.

**Table 3. Kyrgyz Republic: NBKR Accounts, 2010–13**

	2010	2011	2012				2013			
	Dec. Act.	Dec. Act.	Mar. Act.	Jun. Act.	Sep. Act.	Dec. Proj.	Mar. Proj.	Jun. Proj.	Sep. Proj.	Dec. Proj.
	(In millions of soms)									
Net foreign assets	65,127	71,420	73,624	77,048	79,617	83,505	85,795	87,864	92,930	97,656
Net international reserves	73,475	79,629	81,963	85,277	87,962	89,614	91,950	94,064	99,177	103,948
Long-term foreign liabilities	-8,482	-8,344	-8,464	-8,388	-8,487	-6,253	-6,300	-6,347	-6,394	-6,441
Other foreign assets	134	135	125	158	142	144	145	146	147	148
Net domestic assets	-16,529	-16,616	-19,843	-20,352	-19,442	-19,931	-22,860	-21,466	-22,700	-23,586
Net claims on general government	-2,053	-1,158	-652	-2,070	-730	-425	-2,179	-653	-2,555	-1,377
<i>Of which:</i> Total government deposits (including foreign exchange deposits)	-7,243	-6,480	-5,973	-6,951	-5,623	-3,023	-4,157	-2,681	-4,597	-3,354
<i>Of which:</i> Securitized government debt	3,027	3,121	3,130	2,662	2,669	2,711	2,092	2,143	2,157	2,093
Claims on commercial banks	87	-398	-1,811	-3,886	-2,605	-1,844	-2,423	-2,301	-1,798	-2,446
<i>Of which:</i> NBKR Notes	-668	-1,359	-2,106	-2,058	-1,773	-1,355	-1,593	-1,611	-1,475	-1,795
Claims of other financial corporations	-523	-156	-92	-187	-79	-250	-177	-197	-217	-250
Other items net	-14,040	-14,904	-17,287	-14,209	-16,028	-17,412	-18,081	-18,315	-18,129	-19,513
Reserve money	48,597	54,803	53,782	56,696	60,175	63,574	62,935	66,398	70,231	74,070
Currency in circulation	43,290	49,867	48,339	46,190	53,562	57,827	56,931	59,732	62,829	65,182
Commercial banks' reserves	5,307	4,936	5,442	4,944	6,612	5,747	6,004	6,666	7,402	8,888
<i>Of which:</i> Required reserves	2,174	3,143	3,173	3,046	3,700	3,519	3,653	4,064	3,780	4,300
	(Contribution to reserve money growth, in percent) 1/									
Net foreign assets	26.3	12.9	4.0	10.3	15.0	22.1	3.6	6.9	14.8	22.3
Net domestic assets	-8.0	-0.2	-5.9	-6.8	-5.2	-6.0	-4.6	-2.4	-4.4	-5.7
<i>Of which:</i> Net claims on general government	-1.0	1.8	0.9	-1.7	0.8	1.3	-2.8	-0.4	-3.4	-1.5
Reserve money	18.4	12.8	-1.9	3.5	9.8	16.0	-1.0	4.4	10.5	16.5
<i>Of which:</i> Currency in circulation	18.4	13.5	-2.8	-6.7	6.7	14.5	-1.4	3.0	7.9	11.6
<i>Memorandum items:</i>										
Reserve money (12-month change, in percent)	18.4	12.8	19.2	13.5	17.5	16.0	17.0	17.1	16.7	16.5
Gross International Reserves (in millions of U.S. dollars)	1,716	1,831	1,860	1,933	1,931	1,966	1,996	2,035	2,121	2,213
Net international reserves (in millions of U.S. dollars)	1,526	1,650	1,687	1,728	1,790	1,781	1,815	1,845	1,935	2,017
Exchange rate, som per U.S. dollar, end of period	47.1	46.5	46.8	47.2	47.1	...	...	...	...	...

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

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

Table 4. Kyrgyz Republic: Monetary Survey, 2010–13

	2010	2011	2012				2013			
	Dec. Act.	Dec. Act.	Mar. Act.	Jun. Act.	Sept. Proj.	Dec. Proj.	Mar. Proj.	Jun. Proj.	Sept. Proj.	Dec. Proj.
	(In millions of soms)									
Net foreign assets	71,425	77,214	80,129	82,336	85,850	90,445	92,975	95,767	101,562	107,061
<i>Of which:</i> Long-term foreign liabilities (-)	-2,386	-2,314	-2,332	-2,339	-2,334	0	0	0	0	0
Net domestic assets	-2,217	2,314	821	6,032	1,877	3,645	1,742	6,154	132	2,933
Domestic credit	23,379	30,293	31,647	32,996	35,161	38,812	38,579	42,225	41,516	46,701
Net claims on general government	-4,195	-3,029	-3,352	-4,188	-1,518	-258	-1,790	318	-1,314	590
Credit to the rest of the economy	27,575	33,322	34,999	37,183	36,679	39,070	40,369	41,907	42,830	46,111
<i>Of which:</i> In foreign exchange	14,599	17,510	18,610	20,006	19,717	20,453	21,012	21,686	22,035	23,585
Other items net	-25,596	-27,979	-30,826	-26,964	-33,284	-35,168	-36,837	-36,071	-41,384	-43,768
Broad money (M2X)	69,208	79,528	80,950	88,368	87,727	94,089	94,717	101,921	101,694	109,994
<i>Of which:</i>										
Broad money, excluding foreign exchange deposits (M2)	53,745	62,125	62,558	67,248	68,164	73,616	74,148	78,879	80,345	87,062
Currency held by the public	41,471	47,220	46,030	48,544	50,698	54,991	54,124	56,770	59,696	62,219
Total domestic currency deposit liabilities	12,274	14,906	16,528	18,704	17,466	18,625	20,024	22,109	20,649	24,843
	(Contribution to broad money growth, in percent) 1/									
Net foreign assets	19.8	8.4	3.7	6.4	10.9	16.6	2.7	5.7	11.8	17.7
Net domestic assets	1.3	6.5	-1.9	4.7	-0.5	1.7	-2.0	2.7	-3.7	-0.8
Domestic credit	6.0	10.0	1.7	3.4	6.1	10.7	-0.2	3.6	2.9	8.4
Net claims on general government	3.1	1.7	-0.4	-1.5	1.9	3.5	-1.6	0.6	-1.1	0.9
Credit to the rest of the economy	2.8	8.3	2.1	4.9	4.2	7.2	1.4	3.0	4.0	7.5
Other items (net)	-4.6	-3.4	-3.6	1.3	-6.7	-9.0	-1.8	-1.0	-6.6	-9.1
Broad money (M2X)	21.1	14.9	1.8	11.1	10.3	18.3	0.7	8.3	8.1	16.9
<i>Of which:</i>										
Broad money, excluding foreign exchange deposits (M2)	18.0	12.1	0.5	6.4	7.6	14.4	0.6	5.6	7.2	14.3
Currency held by the public	13.3	8.3	-1.5	1.7	4.4	9.8	-0.9	1.9	5.0	7.7
Total deposit liabilities	4.7	3.8	2.0	4.8	3.2	4.7	1.5	3.7	2.2	6.6
<i>Memorandum items:</i>										
Broad money (M2X) (12-month change, in percent)	21.1	14.9	21.5	20.9	14.7	18.3	17.0	15.3	15.9	16.9
Credit to the rest of the economy (12-month change, in percent)	6.3	20.8	23.4	22.8	14.6	17.3	15.3	12.7	16.8	18.0
Credit to the rest of the economy (in percent of GDP)	13.0	12.2	12.7	13.2	13.1	13.4	13.4	13.5	13.2	13.6
M2X velocity 2/	3.1	3.4	3.4	3.2	3.2	3.1	3.2	3.1	3.2	3.1
M2X multiplier	1.42	1.45	1.51	1.56	1.46	1.48	1.51	1.54	1.45	1.49
Dollarization indicators (in percent)										
Loan dollarization	52.9	52.5	53.2	53.8	53.8	52.3	52.0	51.7	51.4	51.1
Deposit dollarization	55.7	53.9	52.7	53.0	52.8	52.4	50.7	51.0	50.8	48.0

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

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

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

Table 5. Kyrgyz Republic: General Government Finances, 2010–14

	2010		2011		2012				2013				2014	
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Year	
	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	
	(In millions of soms, unless indicated otherwise)													
Total revenue and grants	67,293	91,057	20,832	27,144	25,186	27,284	100,445	23,667	25,741	29,211	33,693	112,312	123,019	
Total revenue	61,117	82,433	19,978	26,148	24,460	25,614	96,200	21,931	24,775	27,387	32,772	106,864	119,813	
Current revenue	60,230	81,682	19,814	25,962	24,194	25,161	95,131	21,701	24,539	27,085	32,329	105,655	118,399	
Tax revenue	49,233	66,027	17,133	19,719	20,061	21,723	78,636	18,833	20,296	23,016	27,269	89,414	100,175	
Income tax	13,110	17,122	4,734	5,181	3,957	3,637	17,510	5,130	4,257	4,880	6,287	20,555	22,747	
VAT 1/	14,602	20,353	5,063	6,061	7,572	9,844	28,540	5,854	7,027	8,302	10,109	31,293	34,909	
Excises	1,689	2,187	531	759	795	962	3,047	776	873	915	943	3,506	3,866	
Customs	4,348	7,147	1,974	2,185	2,267	1,998	8,424	1,639	2,277	2,565	3,049	9,530	10,743	
Land tax	799	762	175	173	216	236	800	160	152	248	360	920	1,104	
Road tax and Emergency Fund 1/	42	10	0	4	0	0	4	0	0	0	0	0	0	
New turnover tax 1/	3,699	4,128	1,044	1,155	1,225	1,192	4,615	1,130	1,273	1,433	1,564	5,400	6,224	
Social Fund (excluding government contribution)	9,870	13,010	3,355	3,750	3,520	3,553	14,178	3,778	3,939	4,088	4,659	16,464	18,574	
Other	1,073	1,309	256	452	508	302	1,518	365	498	585	298	1,746	2,008	
Nontax revenue	10,997	15,655	2,681	6,243	4,133	3,438	16,495	2,868	4,244	4,069	5,060	16,240	18,225	
Capital revenue	887	751	163	186	266	453	1,069	230	236	301	443	1,209	1,414	
Grants	6,176	8,624	854	996	726	1,670	4,246	1,736	966	1,825	921	5,448	3,206	
Program grants	3,753	3,963	3	118	0	644	764	1,134	344	1,307	191	2,976	2,589	
PIP grants	2,423	4,661	852	878	726	1,026	3,482	602	622	518	730	2,472	617	
Total expenditure (including net lending)	80,741	103,787	22,149	29,088	31,898	34,939	118,074	24,587	31,307	31,664	42,610	130,167	138,635	
Total expenditure (excluding net lending)	80,175	104,125	22,093	29,916	32,137	34,748	118,893	24,587	31,307	31,664	42,610	130,167	138,635	
Current expenditure	68,246	88,408	20,496	25,133	25,697	28,024	99,350	20,812	26,153	26,827	32,735	106,527	115,775	
Wages	16,903	23,740	5,212	7,982	7,779	8,227	29,200	5,260	8,157	6,995	9,519	29,930	32,624	
Transfers and subsidies	9,313	10,958	2,680	2,566	2,404	2,561	10,211	2,728	2,673	2,546	2,866	10,814	12,258	
Social Fund expenditures	18,993	23,652	7,160	7,427	7,671	8,164	30,421	7,740	8,437	8,748	9,755	34,680	38,542	
Interest	1,812	2,756	707	591	1,071	756	3,125	685	995	806	997	3,482	3,511	
Purchases of other goods and services	21,226	27,302	4,737	6,567	6,772	8,317	26,393	4,399	5,891	7,732	9,599	27,621	28,840	
Capital expenditure	11,929	15,717	1,596	4,782	6,440	6,724	19,542	3,776	5,153	4,837	9,874	23,640	22,860	
Domestically financed capital expenditure	3,310	2,659	139	427	1,355	1,522	3,444	556	540	1,315	2,602	5,013	10,128	
Foreign financed PIP loans	6,196	8,397	605	3,477	4,359	4,175	12,617	2,618	3,991	3,004	6,543	16,156	12,115	
Energy infrastructure projects	...	1,863	0	1,993	3,527	1,074	6,594	1,682	1,695	1,707	1,720	6,804	5,506	
Foreign financed PIP grants	2,423	4,661	852	878	726	1,026	3,482	602	622	518	729	2,471	617	
Net lending	565	-338	56	-827	-239	191	-819	0	0	0	0	0	0	
Discrepancy 2/	-345	-387	881	-852	0	-29	0	0	0	0	0	0	0	
Primary balance excluding grants	-18,157	-18,986	-583	-3,201	-6,367	-8,598	-18,749	-1,972	-5,536	-3,472	-8,841	-19,821	-15,311	
Primary balance	-11,981	-10,361	271	-2,205	-5,641	-6,928	-14,504	-235	-4,571	-1,647	-7,920	-14,373	-12,105	
Overall balance	-13,792	-13,117	-436	-2,796	-6,712	-7,684	-17,629	-920	-5,566	-2,452	-8,917	-17,855	-15,616	
Overall balance excluding energy infrastructure projects	-13,792	-11,254	-436	-803	-3,185	-6,610	-11,034	762	-3,872	-745	-7,197	-11,052	-10,110	
Total financing	13,792	13,117	436	2,796	6,712	7,684	17,629	920	5,566	2,452	8,917	17,855	15,616	
External financing	6,818	9,351	304	3,618	4,043	4,088	12,053	2,452	3,458	4,085	5,868	15,863	12,488	
Public investment program	6,196	8,397	605	3,477	4,359	4,175	12,617	2,618	3,991	3,004	6,543	16,156	12,115	
Program support loans	2,282	2,930	0	784	0	685	1,468	159	160	1,424	162	1,905	2,878	
Total amortization	-1,660	-1,976	-301	-643	-316	-772	-2,033	-324	-693	-344	-837	-2,198	-2,505	
Domestic financing	918	3,606	132	-822	2,670	3,430	5,410	-1,532	2,108	-1,632	1,904	848	947	
NBKR	-1,085	894	506	-1,418	1,341	2,626	3,055	-1,754	1,526	-1,903	1,179	-952	-53	
Commercial banks 3/	2,205	272	-421	492	1,329	955	2,355	222	583	270	725	1,800	1,000	
Nonbank	-202	2,440	47	104	0	-151	0	0	0	0	0	0	0	
Privatization	173	159	0	0	0	166	166	0	0	0	1,144	1,144	2,181	
Use of KRDF investments abroad	5,883	0	0	0	0	0	0	0	0	0	0	0	0	

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

1/ In 2009, the road, emergency and retail taxes have been abolished, the VAT tax rate reduced from 20 to 12 percent, and a new turnover tax introduced. Median turnover tax rate was reduced from 2.5 percent to 2 percent from January 1, 2010.

2/ Relatively large discrepancies in Q1 and Q2, 2012 are mainly explained by the lease payment made in Q1 2012 and reflected in the banking sector accounts but was reported in treasury revenues in Q2, 2012.

3/ Adjusted for the claims of government on commercial banks under the affordable loans to farmers program, which is included in net lending. This makes a change in net claims on government and domestic financing between monetary and fiscal tables noncomparable for Q1 and Q2, 2012. The discrepancy in Q4 2012 is due to the Turkish debt write-off.

Table 6. Kyrgyz Republic: General Government Finances, 2010–14

	2010	2011	2012					2013					2014
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Year
	Act.	Act.	Act.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In percent of GDP) 1/												
Total revenue and grants	30.5	33.3	41.0	42.3	30.7	28.7	34.4	40.0	34.4	30.6	30.4	33.0	31.5
Total revenue	27.7	30.2	39.4	40.7	29.8	27.0	33.0	37.1	33.1	28.7	29.6	31.4	30.7
Current revenue	27.3	29.9	39.0	40.5	29.5	26.5	32.6	36.7	32.8	28.4	29.2	31.1	30.3
Tax revenue	22.3	24.2	33.8	30.7	24.5	22.9	26.9	31.8	27.1	24.1	24.6	26.3	25.7
Income tax	5.9	6.3	9.3	8.1	4.8	3.8	6.0	8.7	5.7	5.1	5.7	6.0	5.8
VAT 2/	6.6	7.5	10.0	9.4	9.2	10.4	9.8	9.9	9.4	8.7	9.1	9.2	8.9
Excises	0.8	0.8	1.0	1.2	1.0	1.0	1.0	1.3	1.2	1.0	0.9	1.0	1.0
Customs	2.0	2.6	3.9	3.4	2.8	2.1	2.9	2.8	3.0	2.7	2.8	2.8	2.8
Land tax	0.4	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.2	0.3	0.3	0.3	0.3
Road tax and Emergency Fund 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New turnover tax 2/	1.7	1.5	2.1	1.8	1.5	1.3	1.6	1.9	1.7	1.5	1.4	1.6	1.6
Social Fund (excluding government contribution)	4.5	4.8	6.6	5.8	4.3	3.7	4.9	6.4	5.3	4.3	4.2	4.8	4.8
Other	0.5	0.5	0.5	0.7	0.6	0.3	0.5	0.6	0.7	0.6	0.3	0.5	0.5
Nontax revenue	5.0	5.7	5.3	9.7	5.0	3.6	5.7	4.8	5.7	4.3	4.6	4.8	4.7
Capital revenue	0.4	0.3	0.3	0.3	0.3	0.5	0.4	0.4	0.3	0.3	0.4	0.4	0.4
Grants	2.8	3.2	1.7	1.6	0.9	1.8	1.5	2.9	1.3	1.9	0.8	1.6	0.8
Program grants	1.7	1.5	0.0	0.2	0.0	0.7	0.3	1.9	0.5	1.4	0.2	0.9	0.7
Public investment program (PIP) grants	1.1	1.7	1.7	1.4	0.9	1.1	1.2	1.0	0.8	0.5	0.7	0.7	0.2
Total expenditure (including net lending)	36.6	38.0	43.6	45.3	38.9	36.8	40.5	41.6	41.9	33.2	38.5	38.3	35.5
Total expenditure (excluding net lending)	36.4	38.1	43.5	46.6	39.2	36.6	40.7	41.6	41.9	33.2	38.5	38.3	35.5
Current expenditure	31.0	32.4	40.4	39.2	31.4	29.5	34.0	35.2	35.0	28.1	29.6	31.3	29.7
Wages	7.7	8.7	10.3	12.4	9.5	8.7	10.0	8.9	10.9	7.3	8.6	8.8	8.4
Transfers and subsidies	4.2	4.0	5.3	4.0	2.9	2.7	3.5	4.6	3.6	2.7	2.6	3.2	3.1
Social Fund expenditures	8.6	8.7	14.1	11.6	9.4	8.6	10.4	13.1	11.3	9.2	8.8	10.2	9.9
Interest	0.8	1.0	1.4	0.9	1.3	0.8	1.1	1.2	1.3	0.8	0.9	1.0	0.9
Purchases of other goods and services	9.6	10.0	9.3	10.2	8.3	8.8	9.0	7.4	7.9	8.1	8.7	8.1	7.4
Capital expenditure	5.4	5.8	3.1	7.5	7.9	7.1	6.7	6.4	6.9	5.1	8.9	7.0	5.9
Domestically financed capital expenditure	1.5	1.0	0.3	0.7	1.7	1.6	1.2	0.9	0.7	1.4	2.4	1.5	2.6
Foreign financed PIP loans	2.8	3.1	1.2	5.4	5.3	4.4	4.3	4.4	5.3	3.1	5.9	4.8	3.1
Energy infrastructure projects	0.0	0.7	0.0	3.1	4.3	1.1	2.3	0.0	0.0	0.0	0.0	2.0	1.4
Foreign financed PIP grants	1.1	1.7	1.7	1.4	0.9	1.1	1.2	1.0	0.8	0.5	0.7	0.7	0.2
Net lending	0.3	-0.1	0.1	-1.3	-0.3	0.2	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Discrepancy 3/	-0.2	-0.1	1.7	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance excluding grants	-8.2	-7.0	-1.1	-5.0	-7.8	-9.1	-6.4	-3.3	-7.4	-3.6	-8.0	-5.8	-3.9
Primary balance	-5.4	-3.8	0.5	-3.4	-6.9	-7.3	-5.0	-0.4	-6.1	-1.7	-7.2	-4.2	-3.1
Overall balance	-6.3	-4.8	-0.9	-4.4	-8.2	-8.1	-6.0	-1.6	-7.4	-2.6	-8.1	-5.3	-4.0
Overall Balance excluding energy infrastructure projects	-6.3	-4.1	-0.9	-1.3	-3.9	-7.0	-3.8	-1.6	-7.4	-2.6	-8.1	-3.2	-2.6
Total financing	6.3	4.8	0.9	4.4	8.2	8.1	6.0	1.6	7.4	2.6	8.1	5.3	4.0
External financing	3.1	3.4	0.6	5.6	4.9	4.3	4.1	4.1	4.6	4.3	5.3	4.7	3.2
PIP	2.8	3.1	1.2	5.4	5.3	4.4	4.3	4.4	5.3	3.1	5.9	4.8	3.1
Program support loans	1.0	1.1	0.0	1.2	0.0	0.7	0.5	0.3	0.2	1.5	0.1	0.6	0.7
Total amortization	-0.8	-0.7	-0.6	-1.0	-0.4	-0.8	-0.7	-0.5	-0.9	-0.4	-0.8	-0.6	-0.6
Domestic financing	0.4	1.3	0.3	-1.3	3.3	3.6	1.9	-2.6	2.8	-1.7	1.7	0.2	0.2
NBKR	-0.5	0.3	1.0	-2.2	1.6	2.8	1.0	-3.0	2.0	-2.0	1.1	-0.3	0.0
Commercial banks 4/	1.0	0.1	-0.8	0.8	1.6	1.0	0.8	0.4	0.8	0.3	0.7	0.5	0.3
Nonbank	-0.1	0.9	0.1	0.2	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization	0.1	0.1	0.0	0.0	0.0	0.2	0.1	0.0	0.0	0.0	1.0	0.3	0.6

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

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

2/ In 2009, the road, emergency and retail taxes have been abolished, the VAT tax rate reduced from 20 to 12 percent, and a new turnover tax introduced. Median turnover tax rate was reduced from 2.5 percent to 2 percent from January 1, 2010.

3/ Relatively large discrepancies in Q1 and Q2, 2012 are mainly explained by the lease payment made in Q1 2012 and reflected in the banking sector accounts but was reported in treasury revenues in Q2, 2012.

4/ Adjusted for the claims of government on commercial banks under the affordable loans to farmers program, which is included in net lending. This makes a change in net claims on government and domestic financing between monetary and fiscal tables noncomparable for Q1 and Q2, 2012.

Table 7. Kyrgyz Republic: State Government Finances, 2010–14

	2010		2011				2012				2013				2014	
	Year Act.	Year Act.	Q1 Act.	Q2 Prel.	Q3 Proj.	Q4 Proj.	Year Proj.	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Year Proj.	Year Proj.	Year Proj.		
	(In millions of soms, unless indicated otherwise)															
Total revenue and grants	57,165	77,753	17,400	23,283	21,526	23,500	85,710	19,736	21,648	24,971	28,881	95,235	103,715			
Total revenue	50,989	69,128	16,546	22,287	20,800	21,830	81,464	17,999	20,682	23,146	27,959	89,787	100,509			
Current revenue	50,360	68,672	16,459	22,212	20,674	21,607	80,953	17,923	20,600	22,998	27,670	89,191	99,825			
Tax revenue	39,363	53,017	13,778	15,969	16,541	18,170	64,458	15,055	16,357	18,929	22,610	72,950	81,601			
Income tax	13,110	17,122	4,734	5,181	3,957	3,637	17,510	5,130	4,257	4,880	6,287	20,555	22,747			
VAT 1/	14,602	20,353	5,063	6,061	7,572	9,844	28,540	5,854	7,027	8,302	10,109	31,293	34,909			
Excises	1,689	2,187	531	759	795	962	3,047	776	873	915	943	3,506	3,866			
Customs	4,348	7,147	1,974	2,185	2,267	1,998	8,424	1,639	2,277	2,565	3,049	9,530	10,743			
Land tax	799	762	175	173	216	236	800	160	152	248	360	920	1,104			
Road tax and Emergency Fund 1/	42	10	0	4	0	0	4	0	0	0	0	0	0			
New turnover tax 1/	3,699	4,128	1,044	1,155	1,225	1,192	4,615	1,130	1,273	1,433	1,564	5,400	6,224			
Other	1,073	1,309	256	452	508	302	1,518	365	498	585	298	1,746	2,008			
Nontax revenue	10,997	15,655	2,681	6,243	4,133	3,438	16,495	2,868	4,244	4,069	5,060	16,240	18,225			
Capital revenue	629	456	87	75	127	223	512	76	82	148	290	596	684			
Grants	6,176	8,624	854	996	726	1,670	4,246	1,736	966	1,225	921	5,448	3,206			
Program grants	3,753	3,963	3	118	0	644	764	1,134	344	1,307	191	2,976	2,589			
Public investment program (PIP) grants	2,423	4,661	852	878	726	1,026	3,482	602	622	518	730	2,472	617			
Total expenditure (including net lending)	69,532	91,059	18,392	25,504	27,410	31,391	102,696	20,934	27,432	27,253	37,568	113,186	120,269			
Total expenditure	68,967	91,397	18,336	26,331	27,648	31,199	103,515	20,934	27,432	27,253	37,568	113,186	120,269			
Current expenditure	57,038	75,680	16,740	21,549	21,208	24,476	83,973	17,158	22,279	22,416	27,694	89,546	97,410			
Wages and Social Fund contributions	19,110	26,935	5,895	9,104	8,241	10,351	33,591	6,126	9,498	8,111	11,011	34,746	37,952			
Transfers and subsidies	9,313	10,958	2,680	2,566	2,404	2,561	10,211	2,728	2,673	2,546	2,866	10,814	12,258			
Transfers to Social Fund	5,577	7,729	2,720	2,720	2,720	2,491	10,652	3,221	3,221	3,221	3,221	12,883	14,848			
Interest	1,812	2,756	707	591	1,071	756	3,125	685	995	806	997	3,482	3,511			
Purchases of other goods and services	21,226	27,302	4,737	6,567	6,772	8,317	26,393	4,399	5,891	7,732	9,599	27,621	28,840			
Capital expenditure (including PIP)	11,929	15,717	1,596	4,782	6,440	6,724	19,542	3,776	5,153	4,837	9,874	23,640	22,860			
Domestically financed capital expenditure	3,310	2,659	139	427	1,355	1,522	3,444	556	540	1,315	2,602	5,013	10,128			
Foreign financed PIP loans	6,196	8,397	605	3,477	4,359	4,175	12,617	2,618	3,991	3,004	6,543	16,156	12,115			
Energy infrastructure projects	0	1,863	0	1,993	3,527	1,074	6,594	1,682	1,695	1,707	1,720	6,804	5,506			
Foreign financed PIP grants	2,423	4,661	852	878	726	1,026	3,482	602	622	518	729	2,471	617			
Financial balance	-11,802	-13,644	-936	-3,048	-6,122	-7,699	-17,805	-1,198	-5,784	-2,282	-8,687	-17,951	-16,554			
Net lending	565	-338	56	-827	-239	191	-819	0	0	0	0	0	0			
Discrepancy	233	-560	633	-820	0	187	0	0	0	0	0	0	0			
Primary balance	-10,323	-11,111	349	-2,449	-4,812	-6,948	-13,861	-514	-4,788	-1,477	-7,691	-14,469	-13,043			
Primary balance excluding grants	-16,499	-19,735	-506	-3,445	-5,538	-8,618	-18,107	-2,250	-5,754	-3,301	-8,612	-19,917	-16,249			
Overall balance	-12,135	-13,867	-359	-3,040	-5,883	-7,704	-16,986	-1,198	-5,784	-2,282	-8,687	-17,951	-16,554			
Overall balance excluding energy infrastructure projects	-12,135	-12,004	-359	-1,047	-2,356	-6,630	-10,392	484	-4,089	-575	-6,968	-11,148	-11,048			
Total financing	12,135	13,867	359	3,040	5,883	7,704	16,986	1,198	5,784	2,282	8,687	17,951	16,554			
External financing	6,818	9,351	304	3,618	4,043	4,088	12,053	2,452	3,458	4,085	5,868	15,863	12,488			
PIP	6,196	8,397	605	3,477	4,359	4,175	12,617	2,618	3,991	3,004	6,543	16,156	12,115			
Program support loans	2,282	2,930	0	784	0	685	1,468	159	160	1,424	162	1,905	2,878			
Total amortization	-1,660	-1,976	-301	-643	-316	-772	-2,033	-324	-693	-344	-837	-2,198	-2,505			
Domestic financing	-2,757	4,356	54	-577	1,841	3,450	4,768	-1,254	2,326	-1,803	1,675	944	1,885			
NBKR	-3,660	894	506	-1,418	1,341	2,626	3,055	-1,754	1,526	-1,903	1,179	-952	-53			
Commercial banks	1,106	-586	-461	629	500	232	900	500	800	100	496	1,896	1,938			
Nonbank	-202	4,047	9	212	0	592	813	0	0	0	0	0	0			
Privatization	173	159	0	0	0	166	166	0	0	0	1,144	1,144	2,181			

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

1/ In 2009, the road, emergency and retail taxes have been abolished, the VAT tax rate reduced from 20 to 12 percent, and a new turnover tax introduced. Median turnover tax rate was reduced from 2.5 percent to 2 percent from January 1, 2010.



Table 8. Kyrgyz Republic: State Government Finances, 2010–14

	2010	2011	2012					2013					2014
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Year
	Act.	Act.	Act.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In percent of GDP)												
Total revenue and grants	25.9	28.5	34.3	36.3	26.3	24.7	29.4	33.4	29.0	26.1	26.1	28.0	26.6
Total revenue	23.1	25.3	32.6	34.7	25.4	23.0	27.9	30.4	27.7	24.2	25.3	26.4	25.7
Current revenue	22.9	25.1	32.4	34.6	25.2	22.7	27.7	30.3	27.6	24.1	25.0	26.2	25.6
Tax revenue	17.9	19.4	27.1	24.9	20.2	19.1	22.1	25.5	21.9	19.8	20.4	21.4	20.9
Income tax	5.9	6.3	9.3	8.1	4.8	3.8	6.0	8.7	5.7	5.1	5.7	6.0	5.8
VAT 1/	6.6	7.5	10.0	9.4	9.2	10.4	9.8	9.9	9.4	8.7	9.1	9.2	8.9
Excises	0.8	0.8	1.0	1.2	1.0	1.0	1.0	1.3	1.2	1.0	0.9	1.0	1.0
Customs	2.0	2.6	3.9	3.4	2.8	2.1	2.9	2.8	3.0	2.7	2.8	2.8	2.8
Land tax	0.4	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.2	0.3	0.3	0.3	0.3
Retail sales tax 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New turnover tax 1/	1.7	1.5	2.1	1.8	1.5	1.3	1.6	1.9	1.7	1.5	1.4	1.6	1.6
Other	0.5	0.5	0.5	0.7	0.6	0.3	0.5	0.6	0.7	0.6	0.3	0.5	0.5
Nontax revenue	5.0	5.7	5.3	9.7	5.0	3.6	5.7	4.8	5.7	4.3	4.6	4.8	4.7
Capital revenue	0.3	0.2	0.2	0.1	0.2	0.2	0.2	0.1	0.1	0.2	0.3	0.2	0.2
Grants	2.8	3.2	1.7	1.6	0.9	1.8	1.5	2.9	1.3	1.9	0.8	1.6	0.8
Program grants	1.7	1.5	0.0	0.2	0.0	0.7	0.3	1.9	0.5	1.4	0.2	0.9	0.7
Public investment program (PIP) grants	1.1	1.7	1.7	1.4	0.9	1.1	1.2	1.0	0.8	0.5	0.7	0.7	0.2
Total expenditure (including net lending)	31.6	33.3	36.2	39.7	33.4	33.0	35.2	35.4	36.7	28.5	33.9	33.3	30.8
Total expenditure	31.3	33.5	36.1	41.0	33.7	32.8	35.5	35.4	36.7	28.5	33.9	33.3	30.8
Current expenditure	25.9	27.7	33.0	33.6	25.9	25.8	28.8	29.0	29.8	23.5	25.0	26.3	25.0
Wages and Social Fund contributions	8.7	9.9	11.6	14.2	10.1	10.9	11.5	10.4	12.7	8.5	9.9	10.2	9.7
Transfers and subsidies	4.2	4.0	5.3	4.0	2.9	2.7	3.5	4.6	3.6	2.7	2.6	3.2	3.1
Transfers to Social Fund	2.5	2.8	5.4	4.2	3.3	2.6	3.6	5.4	4.3	3.4	2.9	3.8	3.8
Interest	0.8	1.0	1.4	0.9	1.3	0.8	1.1	1.2	1.3	0.8	0.9	1.0	0.9
Purchases of other goods and services	9.6	10.0	9.3	10.2	8.3	8.8	9.0	7.4	7.9	8.1	8.7	8.1	7.4
Capital expenditure (including PIP)	5.4	5.8	3.1	7.5	7.9	7.1	6.7	6.4	6.9	5.1	8.9	7.0	5.9
Domestically financed capital expenditures	1.5	1.0	0.3	0.7	1.7	1.6	1.2	0.9	0.7	1.4	2.4	1.5	2.6
Foreign financed PIP loans	2.8	3.1	1.2	5.4	5.3	4.4	4.3	4.4	5.3	3.1	5.9	4.8	3.1
Energy infrastructure projects	0.0	0.7	0.0	3.1	4.3	1.1	2.3	2.8	2.3	1.8	1.6	2.0	1.4
Foreign financed PIP grants	1.1	1.7	1.7	1.4	0.9	1.1	1.2	1.0	0.8	0.5	0.7	0.7	0.2
Financial balance	-5.4	-5.0	-1.8	-4.7	-7.5	-8.1	-6.1	-2.0	-7.7	-2.4	-7.8	-5.3	-4.2
Net lending	0.3	-0.1	0.1	-1.3	-0.3	0.2	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Discrepancy	0.1	-0.2	1.2	-1.3	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance	-4.7	-4.1	0.7	-3.8	-5.9	-7.3	-4.7	-0.9	-6.4	-1.5	-6.9	-4.3	-3.3
Primary balance excluding grants	-7.6	-7.2	-1.0	-5.4	-6.8	-9.1	-6.2	-3.8	-7.7	-3.5	-7.8	-5.9	-4.2
Overall balance	-5.6	-5.1	-0.7	-4.7	-7.2	-8.1	-5.8	-2.0	-7.7	-2.4	-7.8	-5.3	-4.2
Overall Balance excluding energy infrastructure projects	-5.6	-4.4	-0.7	-1.6	-2.9	-7.0	-3.6	0.8	-5.5	-0.6	-6.3	-3.3	-2.8
Total financing	5.5	5.1	0.7	4.7	7.2	8.1	5.8	2.0	7.7	2.4	7.8	5.3	4.2
External financing	3.1	3.4	0.6	5.6	4.9	4.3	4.1	4.1	4.6	4.3	5.3	4.7	3.2
PIP	2.8	3.1	1.2	5.4	5.3	4.4	4.3	4.4	5.3	3.1	5.9	4.8	3.1
Program support loans	1.0	1.1	0.0	1.2	0.0	0.7	0.5	0.3	0.2	1.5	0.1	0.6	0.7
Domestic financing	-1.3	1.6	0.1	-0.9	2.2	3.6	1.6	-2.1	3.1	-1.9	1.5	0.3	0.5
NBKR	-1.7	0.3	1.0	-2.2	1.6	2.8	1.0	-3.0	2.0	-2.0	1.1	-0.3	0.0
Commercial banks	0.5	-0.2	-0.9	1.0	0.6	0.2	0.3	0.8	1.1	0.1	0.4	0.6	0.5
Nonbank	-0.1	1.5	0.0	0.3	0.0	0.6	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Privatization	0.1	0.1	0.0	0.0	0.0	0.2	0.1	0.0	0.0	0.0	1.0	0.3	0.6

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

1/ In 2009, the road, emergency and retail taxes have been abolished, the VAT tax rate reduced from 20 to 12 percent, and a new turnover tax introduced. Median turnover tax rate was reduced from 2.5 percent to 2 percent from January 1, 2010.

Table 9. Kyrgyz Republic: Social Fund Operations, 2010–14

	2010	2011	2012					2013					2014
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Year
	Act.	Act.	Act.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In millions of soms)												
Total revenue	12,336	16,500	4,114	4,983	4,122	5,908	19,126	4,797	5,434	5,357	6,305	21,893	24,632
Total contribution	12,078	16,205	4,038	4,872	3,982	5,677	18,569	4,644	5,280	5,204	6,152	21,280	23,902
Other revenue	258	295	76	111	139	231	557	153	153	153	153	613	730
Total expenditure	18,993	23,652	7,160	7,427	7,671	8,164	30,421	7,740	8,437	8,748	9,755	34,680	38,542
Pension Fund	18,222	22,551	7,053	6,961	7,313	7,662	28,990	7,341	8,013	8,315	9,289	32,959	36,575
Medical Insurance Fund (including old funds)	690	978	97	414	317	440	1,269	384	384	384	384	1,534	1,753
Workers' Health Recovery Fund	81	123	9	52	40	61	162	15	40	50	82	187	214
Financial balance	-6,657	-7,152	-3,045	-2,444	-3,549	-2,256	-11,294	-2,943	-3,003	-3,391	-3,450	-12,787	-13,910
Budgetary transfer	5,577	7,729	2,720	2,720	2,720	2,491	10,652	3,221	3,221	3,221	3,221	12,883	14,848
Discrepancy	115	173	248	-32	0	-216	0	0	0	0	0	0	0
Overall balance	-965	750	-77	244	-829	20	-642	278	217	-170	-229	96	938
Financing	965	-750	77	-244	829	-20	642	-278	-217	170	229	-96	-938
Commercial bank deposits	965	858	40	-137	829	723	1,455	-278	-217	170	229	-96	-938
Government bonds	0	-1,608	38	-108	0	-743	-813	0	0	0	0	0	0
	(In percent of GDP)												
Total revenue	5.6	6.0	8.1	7.8	5.0	6.2	6.6	8.1	7.3	5.6	5.7	6.4	6.3
Total contribution	5.5	5.9	8.0	7.6	4.9	6.0	6.4	7.9	7.1	5.4	5.6	6.3	6.1
Other revenue	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.1	0.2	0.2
Total expenditure	8.6	8.7	14.1	11.6	9.4	8.6	10.4	13.1	11.3	9.2	8.8	10.2	9.9
Pension Fund	8.3	8.3	13.9	10.8	8.9	8.1	9.9	12.4	10.7	8.7	8.4	9.7	9.4
Medical Insurance Fund (including old funds)	0.3	0.4	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.5	0.5
Workers' Health Recovery Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial balance	-3.0	-2.6	0.0	0.0	0.0	0.0	-3.9	0.0	0.0	0.0	0.0	-3.8	-3.6
Budgetary transfer	2.5	2.8	0.0	0.0	0.0	0.0	3.6	0.0	0.0	0.0	0.0	3.8	3.8
Discrepancy	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.4	0.3	0.0	0.0	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.2
Financing	0.4	-0.3	0.1	-0.2	1.0	0.8	0.2	-0.5	-0.3	0.2	0.2	0.0	-0.2
Commercial bank deposits	0.4	0.3	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	-0.2
Government bonds	0.0	-0.6	0.0	0.0	0.0	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0

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

**Table 10. Kyrgyz Republic: General Government Operations, GFSM 2001 Presentation, 2010–14**

	2010	2011	2012	2013	2014
	Year	Year	Year	Year	Year
	Act.	Act.	Proj.	Proj.	Proj.
(In millions of soms, unless indicated otherwise)					
Revenue	68,872	93,796	115,974	116,532	127,663
Taxes	39,363	53,017	64,458	72,950	81,601
Taxes on income, profits, and capital gains	13,110	17,122	17,510	20,555	22,747
Taxes on property	1,664	1,682	1,784	2,066	2,420
Taxes on goods and services	19,990	26,668	36,202	40,199	44,998
General taxes on goods and services	18,301	24,481	33,155	36,693	41,132
Value-added taxes	14,602	20,353	28,540	31,293	34,909
Turnover and other general taxes on goods and services	3,699	4,128	4,615	5,400	6,224
Excises	1,689	2,187	3,047	3,506	3,866
Taxes on international trade and transactions	4,348	7,147	8,424	9,530	10,743
Other taxes	250	398	539	600	692
Social contributions	12,078	16,205	18,569	21,280	23,902
Grants	6,176	8,624	15,895	5,448	3,206
Program grants 1/	3,753	3,963	12,413	2,976	2,589
Project grants	2,423	4,661	3,482	2,472	617
Other revenue	11,255	15,950	17,052	16,854	18,954
Expense	70,454	91,603	103,741	111,343	121,104
Compensation of employees	19,110	26,935	33,591	34,746	37,952
Wages and salaries	16,903	23,740	29,200	29,930	32,624
Social contributions	2,207	3,195	4,391	4,816	5,328
Use of goods and services	21,226	27,302	26,393	27,621	28,840
Interest	1,812	2,756	3,125	3,482	3,511
Subsidies	1,763	2,138	2,052	2,083	3,091
Social benefits	26,543	32,473	38,580	43,410	47,709
Gross operating balance	-1,582	2,193	12,233	5,189	6,560
Net acquisition of nonfinancial assets	11,300	15,261	19,031	23,044	22,176
Acquisition of nonfinancial assets	11,929	15,717	19,542	23,640	22,860
Domestically financed	3,310	2,659	3,444	5,013	10,128
Foreign financed	8,619	13,058	16,099	18,627	12,732
Disposals of nonfinancial assets	-629	-456	-512	-596	-684
Net lending/borrowing (overall balance)	-12,882	-13,068	-6,798	-17,855	-15,616
Statistical discrepancy	345	387	0	0	0
Net acquisition of financial assets	-5,279	-1,579	-5,897	-718	-1,190
Domestic	604	-1,579	-5,897	-718	-1,190
Currency and deposits	211	-1,082	-4,912	427	991
Loans	565	-338	-819	0	0
Sales of equity (privatization proceeds)	-173	-159	-166	-1,144	-2,181
Foreign	-5,883	0	0	0	0
Net incurrence of liabilities	7,947	11,876	901	17,138	14,426
Domestic	1,129	2,524	498	1,275	1,938
Foreign	6,818	9,351	404	15,863	12,488
Program loans	2,282	2,930	1,468	1,905	2,878
Public investment program loans	6,196	8,397	12,617	16,156	12,115
Amortization	-1,660	-1,976	-13,682	-2,198	-2,505

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

1/ Program grants in 2012 include debt forgiveness by Russia (US\$193.6 million), Turkey (US\$49.5 million), and Germany (US\$8.5 million).

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

Date	Action	Associated Disbursement	Share of Access (In percent)
On June 20, 2011	Approved three-year ECF arrangement	SDR 9.514 million	14.3
On December 7, 2011	Completed the first review based on end-June, 2011 performance criteria	SDR 9.514 million	14.3
On April 27, 2012	Completed the second review based on end-December, 2011 performance criteria	SDR 9.514 million	14.3
On or after November 15, 2012	Completed the third review based on end-June, 2012 performance criteria	SDR 9.514 million	14.3
On or after April 15, 2013	Completed the fourth review based on end-December, 2012 performance criteria	SDR 9.514 million	14.3
On or after November 15, 2013	Completed the fifth review based on end-June, 2013 performance criteria	SDR 9.514 million	14.3
On or after April 30, 2014	Completed the sixth and final review based on end-December, 2013 performance criteria	SDR 9.516 million	14.3
Total		SDR 66.600 million	100.0

Source: International Monetary Fund.

**Table 12. Kyrgyz Republic: Indicators of Capacity to Repay the Fund, 2012–17 1/**

	2012	2013	2014	2015	2016	2017
<b>Fund obligations based on existing credit</b>						
(In millions of SDRs)						
Principal	0.5	11.4	13.3	11.0	15.0	18.3
Charges and interest	0.0	0.1	0.2	0.2	0.2	0.1
<b>Fund obligations based on existing and prospective credit</b>						
(In millions of SDRs)						
Principal	0.5	11.4	13.3	11.0	15.0	18.3
Charges and interest	0.0	0.1	0.2	0.2	0.2	0.1
<b>Total obligations based on existing and prospective credit</b>						
In millions of SDRs	0.5	11.4	13.6	11.3	15.2	18.4
In millions of U.S. dollars	0.8	17.3	20.5	17.0	22.8	27.7
In percent of Gross International Reserves	0.0	0.8	0.8	0.6	0.7	0.8
In percent of exports of goods and services	0.0	0.4	0.4	0.3	0.4	0.4
In percent of debt service 2/	1.0	17.7	18.8	14.0	12.9	14.8
In percent of GDP	0.0	0.2	0.3	0.2	0.3	0.3
In percent of quota	0.6	12.9	15.3	12.7	17.1	20.7
<b>Outstanding Fund credit 2/</b>						
In millions of SDRs	136.9	144.6	140.8	129.8	114.8	96.5
In billions of U.S. dollars	0.2	0.2	0.2	0.2	0.2	0.1
In percent of Gross International Reserves	10.5	9.9	8.7	7.0	5.6	4.1
In percent of exports of goods and services	5.6	5.2	4.3	3.6	2.9	2.2
In percent of debt service 2/	277.3	223.2	195.0	160.8	97.8	77.6
In percent of GDP	3.3	3.1	2.7	2.4	1.9	1.5
In percent of quota	154.2	162.8	158.6	146.1	129.3	108.7
<b>Net use of Fund credit (in millions of SDRs)</b>						
Disbursements	18.5	7.7	(3.8)	(11.0)	(15.0)	(18.3)
Repayments and Repurchases	19.0	19.0	9.5	-	-	-
	0.5	11.4	13.3	11.0	15.0	18.3
<b>Memorandum items:</b>						
Nominal GDP (in millions of U.S. dollars)	6,186	6,998	7,799	8,289	8,902	9,575
Exports of goods and services (in millions of U.S. dollars)	3,700	4,230	4,963	5,404	5,998	6,711
Gross International Reserves (in millions of U.S. dollars)	1,966	2,213	2,449	2,781	3,076	3,504
Debt service (in millions of U.S. dollars) 2/	74.7	97.9	109.1	121.7	176.9	187.3
Quota (millions of SDRs)	88.8	88.8	88.8	88.8	88.8	88.8

Sources: IMF staff estimates and projections.

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

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

**Table 13. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, June 2011–June 2012**  
(In millions of soms, unless otherwise indicated; eop)

	2011																2012							
	June				September				December				March				June							
	QPC				IT				QPC				IT				QPC							
	ECF Req.	Adj.	Act.	Status	ECF Req.	Adj.	Act.	Status	1st Rev.	Adj.	Act.	Status	1st Rev.	Adj.	Act.	Status	2nd Rev.	Adj.	Act.	Status				
<i>Quantitative performance criteria 1/</i>																								
1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars)	1,586	1,583	1,640	Met	1,612	1,496	1,637	Met	1,694	1,586	1,638	Met	1,633	1,600	1,635	Met	1,635	1,611	1,725	Met				
2. Ceiling on net domestic assets of the NBKR (eop stock)	-16,016	-15,898	-18,968	Met	-15,189	-9,702	-17,602	Met	-12,384	-7,303	-14,080	Met	-11,868	-10,476	-14,915	Met	-10,368	-8,993	-16,271	Met				
3. Ceiling on cumulative overall cash deficit of the general government 2/	3,652	4,017	-161	Met	12,698	6,933	4,982	Met	21,588	16,754	13,117	Met	477	49	436	Not met	7,213	7,016	3,133	Met				
4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/	450	450	0	Met	450	450	0	Met	250	250	0	Met	250	250	0	Met	400	400	0	Met				
5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	Met	0	0	0	Met	0	0	0	Met	0	0	0	Met	0	0	0	Met				
<i>Indicative Targets 1/</i>																								
1. Ceiling on reserve money	50,390	50,390	49,973	Met	52,464	52,464	51,213	Met	59,116	59,116	54,803	Met	56,772	56,772	53,782	Met	58,339	58,339	56,696	Met				
2. Cumulative floor on state government tax collections 2/	22,607	22,607	23,707	Met	35,332	35,332	37,683	Met	50,823	50,823	53,017	Met	12,611	12,611	13,778	Met	26,069	26,069	29,747	Met				
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit and Monthly Social Benefit programs 2/	1,255	1,255	1,276	Met	2,027	2,027	2,037	Met	2,800	2,800	2,815	Met	722	722	856	Met	1,444	1,444	1,594	Met				

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

1/ As defined in the TMU.

2/ Cumulative from the beginning of the year.

3/ External debt contracted or guaranteed with a grant element less than 35 percent. The limit is cumulative from end-December 2010 and tied to energy infrastructure projects only. Should the total borrowings for these projects be less than US\$400 million, the remaining space cannot be used to borrow for other projects. While exact terms are still under negotiation, the grant element on these loans will not be lower than 30 percent.

**Table 14. Kyrgyz Republic: Structural Benchmarks under the Extended Credit Facility for 2012–13**

Measure	Timing	Macroeconomic Rationale	Status
<b>Structural Benchmarks</b>			
<b>I. FISCAL POLICY</b>			
<b>Strengthen public financial management by:</b>			
Adopting an instruction for introducing, through TMIS, a commitment control system based on cash limits.	End-July, 2012	Strengthen the treasury's ability to check commitments against authorized limits, register commitments and enhance control and recording of cash spending requests.	Met
Reforming the ministry of finance by revamping its organizational structure consistent with Fund TA advice.	End-September, 2012	Increase the efficiency of government and public financial management, in particular.	Met
<b>II. FINANCIAL SECTOR</b>			
Disseminate Zalkar prospectus and complete its valuation.	End-June, 2012	Complete resolution of Zalkar Bank.	Met
Complete Zalkar sale	End-December, 2012	Complete resolution of Zalkar Bank.	In progress
Submit the draft Banking Code (including Law on Banks and Banking Activity, Law on Conservatorship, Liquidation, and Bankruptcy of Banks, Law on NBKR) consistent with Fund TA advice, to (i) strengthen the legal framework for early intervention and resolution of problem banks; (ii) limit the scope of judicial review of actions taken by the NBKR; and (iii) enhance legal protection for NBKR staff and agents. The Banking Code reform will also: (i) establish the NBKR's sole authority to hold and manage official foreign reserves, and (ii) extend the term of engagement of the NBKR external auditors.		Strengthen bank resolution framework and supervisory independence of the NBKR. This will also ensure the supremacy of the NBKR law over other laws and regulations that might affect the NBKR;  Strengthen institutional and financial autonomy of the NBKR.	
(i) to Fund staff	End-April, 2012		Met
(ii) to government	End-December, 2012		Proposed to rephrase to end-April 2013
(iii) to parliament	End-March, 2013		Proposed to rephrase to end-September 2013
In line with the Fund's TA advice, submit to the parliament draft amendments to the AML/CFT law and to the relevant provisions of the Criminal Code to strengthen the AML/CFT legal framework. These provisions include the criminalization of money laundering and terrorist financing; identification, tracing, and freezing of terrorist assets; confiscation of funds related to money laundering; and customer due diligence measures for all financial institutions.	End-September, 2012	Bring the AML/CFT legislation in line with the Financial Action Task Force standard.	Not met. Proposed to delay to end-December 2012

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

*Based on the Debt Sustainability Analysis update, the Kyrgyz Republic remains at a moderate risk of debt distress. The debt outlook has improved slightly, but stress tests suggest that country is still vulnerable to large exogenous shocks. Fiscal consolidation and prudent use of concessional loans, in particular in the energy sector, are key for keeping the debt outlook sustainable and improving debt ratios in the medium term.*

**1. This joint Bank-Fund debt sustainability analysis (DSA) update by Fund and Bank staffs reconfirms the moderate risk rating found in the last DSA (country report No. 11/155).** The updated assessment incorporates: (i) the revised data on private sector debt since 2007; (ii) the higher borrowing for energy infrastructure (US\$620 million compared to US\$450 million expected previously) but on concessional terms as opposed to slightly nonconcessional terms in the last DSA; and (iii) a new loan from Turkey (US\$100 million). Furthermore, the update factors in the completion of debt relief from Turkey (US\$49.2 million) and Russia (US\$188.9 million) in 2012 instead of 2011, and a write off of a US\$300 million debt from Russia over ten years starting from 2016). The macroeconomic assumptions underlying the assessment have been revised to reflect temporarily lower growth in 2012, due to the deferral of a third of this year's gold production to 2013–14, and consequently higher growth in 2013–14. Despite the changes introduced in this update, with the long term assumptions remaining largely the same, there would not be any significant impact on the debt indicators.

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

	2011 DSA Proj.	2012 DSA Update Proj.
Real GDP growth (in percent)	5.1	5.0
Growth of exports of G&S (U.S. dollar terms, in percent)	6.3	6.4
Growth of imports of G&S (U.S. dollar terms, in percent)	6.7	6.5
Primary Deficit (percent of GDP)	2.2	1.7
Inflation rate	4.1	4.0

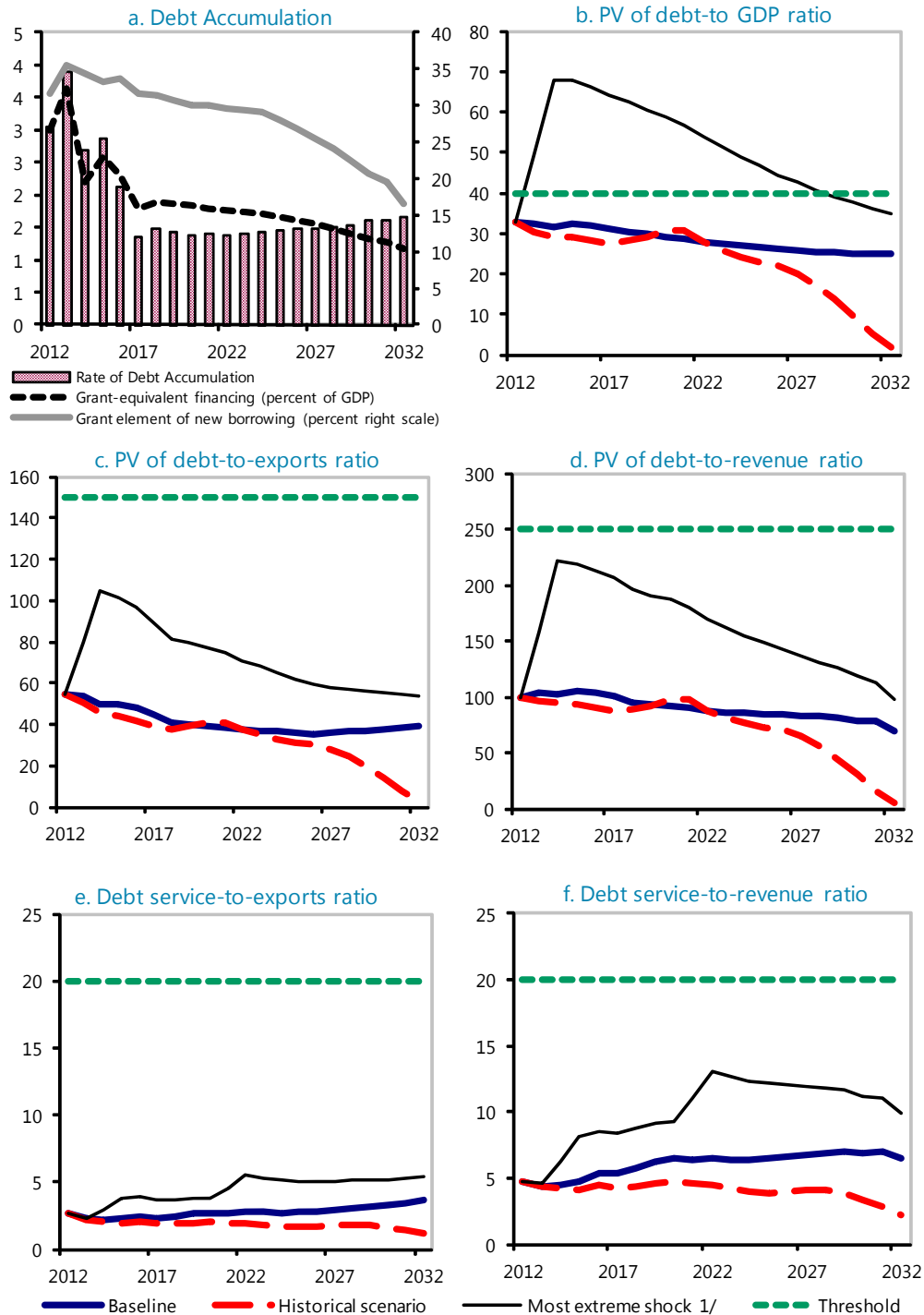
Sources: Country authorities, and staff projections.

**2. The projected debt ratios under the baseline and alternative scenarios generally point to better outcomes than projected last year.** All external debt burden indicators in the baseline and alternative scenarios, except the ones related to the PV of debt to GDP in the most extreme shock (a combination of growth, export value, US dollar GDP deflator, and net non-debt creating flows as well as one time depreciation of som of 30 percent in 2013), are well below the thresholds.



Stress tests indicate that the Kyrgyz Republic still remains vulnerable to large external shocks and substantially less favorable assumptions. With regard to public debt, all debt indicators suggest a manageable debt outlook. The PV of debt to GDP ratio is gradually declining from 37 percent in 2012 to 32 percent in 2032. As in the previous DSA, alternative scenarios and stress test indicate that public debt is highly sensitive to shocks that reduce real GDP growth.

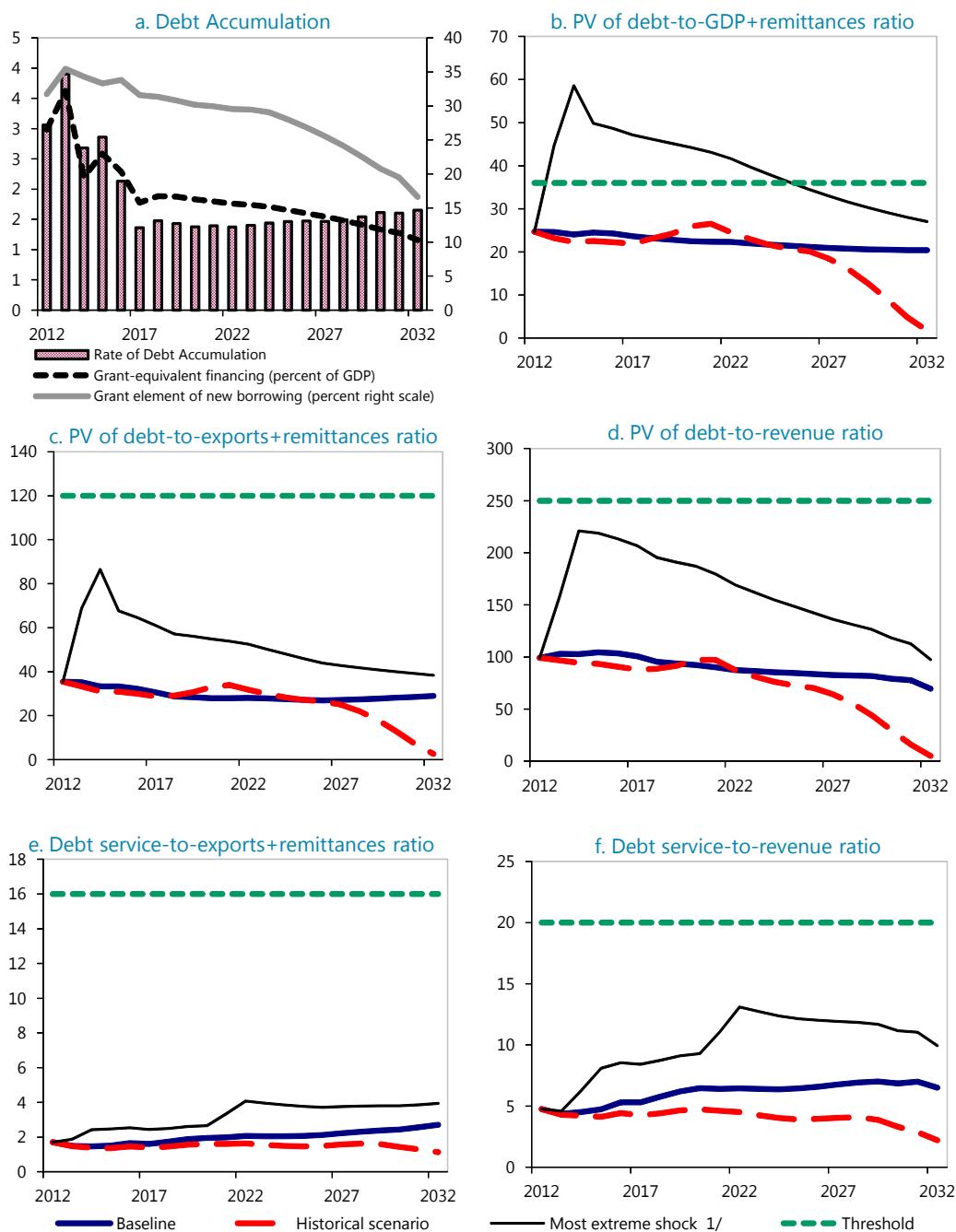
**Figure 1. Kyrgyz Republic: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2012–32 1/**



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock and in figure f. to a Combination shock

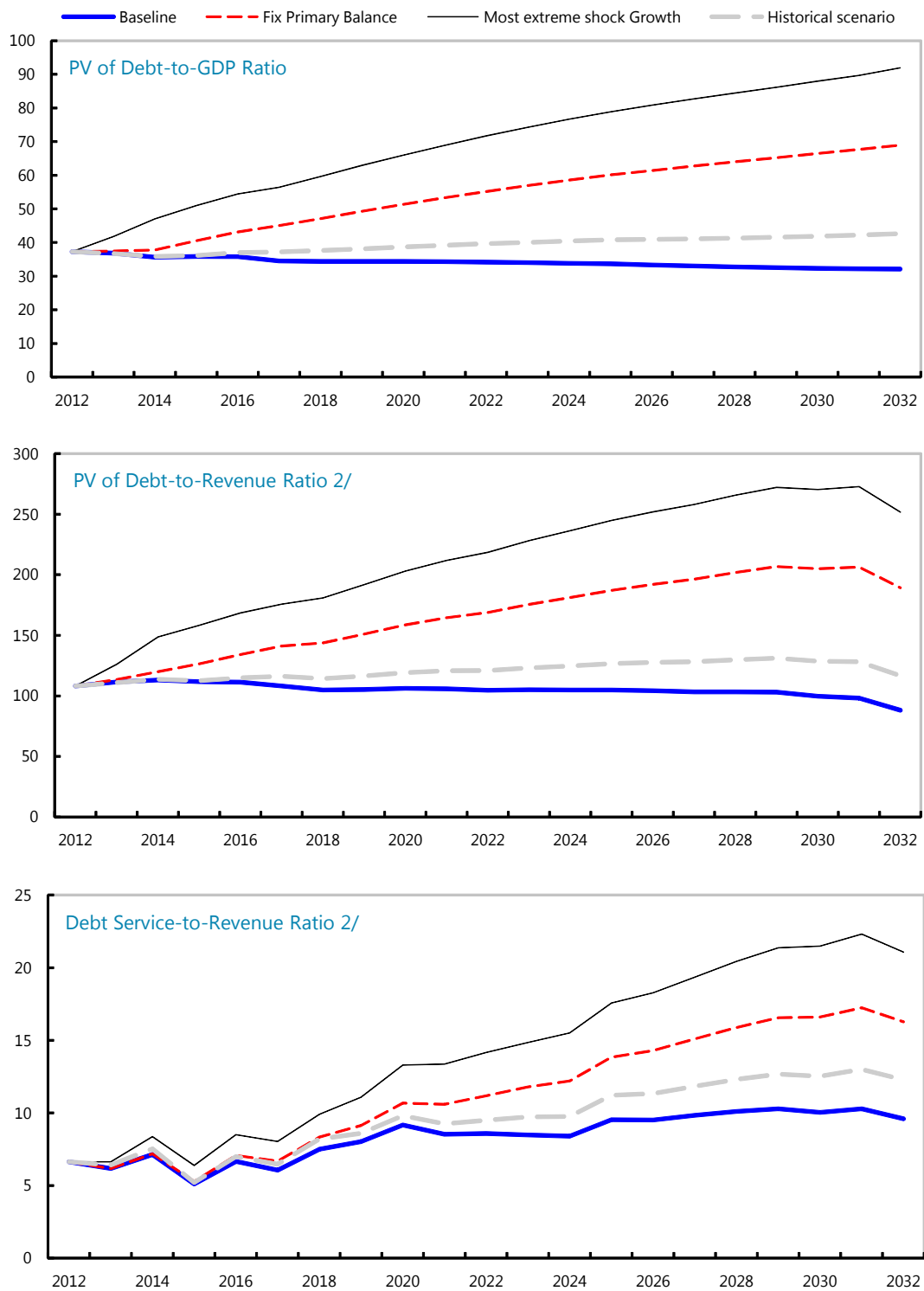
**Figure 2. Kyrgyz Republic: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios Including Remittances, 2012–32 1/**



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a Non-debt flows shock; in c. to a Non-debt flows shock; in d. to a Combination shock; in e. to a Non-debt flows shock and in figure f. to a Combination shock

**Figure 3. Kyrgyz Republic: Indicators of Public Debt Under Alternative Scenarios, 2012–32 1/**



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022.

2/ Revenues are defined inclusive of grants.

**Table 1. Kyrgyz Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2009–32**  
(In percent of GDP, unless otherwise indicated)

	Actual			Average <sup>6/</sup>	Standard Deviation <sup>6/</sup>	Estimate					Projections			
	2009	2010	2011			2012	2013	2014	2015	2016	2017	2012-17 Average	2022	2032
<b>Public sector debt 1/</b>	58.0	60.3	52.4			52.0	51.3	49.3	49.5	49.1	47.1		44.8	40.7
o/w foreign-currency denominated	55.1	57.4	49.2			48.1	47.4	45.7	46.6	45.9	44.1		38.7	33.7
Change in public sector debt	9.5	2.3	-7.9			-0.4	-0.7	-2.0	0.2	-0.4	-2.0		-0.4	-0.3
Identified debt-creating flows	5.7	4.5	-7.7			4.0	-1.2	-1.9	-0.7	-1.4	-2.1		-0.6	-0.3
Primary deficit	3.0	5.2	3.8	2.3	1.9	5.0	4.3	3.1	1.8	1.5	0.7	2.7	1.7	1.6
Revenue and grants	32.1	30.5	33.3			34.4	33.0	31.5	32.1	32.2	32.0		32.7	36.4
of which: grants	5.1	2.8	3.2			1.5	1.6	0.8	1.1	1.0	1.0		0.8	0.6
Primary (noninterest) expenditure	35.1	35.7	37.2			39.5	37.3	34.6	33.8	33.7	32.7		34.4	38.0
Automatic debt dynamics	2.6	-0.6	-11.4			-1.0	-5.1	-4.5	-2.2	-2.7	-2.8		-2.3	-1.9
Contribution from interest rate/growth differential	-1.0	0.7	-3.1			-0.4	-4.2	-3.7	-1.8	-2.6	-2.6		-2.3	-1.9
of which: contribution from average real interest rate	0.4	0.4	0.2			0.1	-0.1	-0.2	-0.2	-0.2	-0.2		-0.2	0.1
of which: contribution from real GDP growth	-1.4	0.3	-3.2			-0.5	-4.1	-3.6	-1.6	-2.4	-2.3		-2.1	-2.0
Contribution from real exchange rate depreciation	3.6	-1.3	-8.4			-0.6	-1.0	-0.7	-0.4	-0.1	-0.2		...	...
Other identified debt-creating flows	0.1	-0.1	-0.1			-0.1	-0.3	-0.6	-0.2	-0.2	0.0		0.0	0.0
Privatization receipts (negative)	0.1	-0.1	-0.1			-0.1	-0.3	-0.6	-0.2	-0.2	0.0		0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Residual, including asset changes /2	3.8	-2.1	-0.2			-4.4	0.5	0.0	0.9	1.0	0.0		0.2	0.0
<b>Other Sustainability Indicators</b>														
<b>PV of public sector debt</b>			34.8			37.3	36.8	35.6	35.8	35.8	34.5		34.2	32.1
o/w foreign-currency denominated	...	...	31.6			33.4	33.0	32.0	32.8	32.6	31.6		28.1	25.0
o/w external	...	...	30.8			32.7	32.4	31.5	32.4	32.2	31.2		27.9	24.9
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...
Gross financing need 3/	6.6	8.7	7.4			9.0	8.2	7.3	5.0	5.0	4.1		6.8	5.6
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	104.5			108.2	111.6	113.1	111.8	111.3	108.1		104.6	88.1
PV of public sector debt-to-revenue ratio (in percent)	...	...	115.5			113.0	117.2	116.1	115.7	115.0	111.5		107.3	89.5
o/w external 4/	...	...	102.2			99.2	103.1	102.7	104.6	103.4	100.7		87.5	69.5
Debt service-to-revenue and grants ratio (in percent) 5/	7.1	7.5	7.0			6.6	6.2	7.1	5.1	6.7	6.1		8.6	9.6
Debt service-to-revenue ratio (in percent) 5/	8.5	8.2	7.8			6.9	6.5	7.3	5.3	6.9	6.2		8.8	9.8
Primary deficit that stabilizes the debt-to-GDP ratio	-6.5	2.8	11.7			5.5	5.0	5.1	1.6	2.0	2.8		2.1	1.9
<b>Key macroeconomic and fiscal assumptions</b>														
Real GDP growth (in percent)	2.9	-0.5	5.7	4.1	3.6	1.0	8.5	7.5	3.3	5.0	5.0	5.1	5.0	5.0
Average nominal interest rate on forex debt (in percent)	1.2	1.1	1.2	1.3	0.3	1.2	1.2	1.1	1.2	1.2	1.2	1.2	1.5	2.1
Average real interest rate on domestic debt (in percent)	10.0	2.5	-3.2	-0.3	5.2	7.8	7.5	4.9	3.6	3.7	2.8	5.0	0.2	0.1
Real exchange rate depreciation (in percent, + indicates depreciation)	8.1	-2.3	-15.3	-6.8	7.4	-1.2	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.0	10.0	17.3	9.7	6.8	5.8	7.4	6.8	6.0	5.4	5.5	6.1	4.0	4.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.3	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2
Grant element of new external borrowing (in percent)	...	...	...	...	...	31.8	35.5	34.3	33.3	33.8	31.6	33.4	29.5	16.6

Sources: Country authorities; and staff estimates and projections.

1/ Covers general government and gross debt is used.

2/ Includes debt relief.

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

4/ Revenues excluding grants.

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

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

**Table 2. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public Debt, 2012–32**

	Projections							
	2012	2013	2014	2015	2016	2017	2022	2032
<b>PV of Debt-to-GDP Ratio</b>								
<b>Baseline</b>	37	37	36	36	36	35	34	32
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	37	37	36	36	37	37	40	43
A2. Primary balance is unchanged from 2012	37	37	38	41	43	45	55	69
A3. Permanently lower GDP growth 1/	37	37	37	38	39	39	47	72
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	37	42	47	51	54	56	72	92
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	37	37	36	37	37	35	35	32
B3. Combination of B1-B2 using one half standard deviation shocks	37	38	39	42	44	46	58	74
B4. One-time 30 percent real depreciation in 2013	37	50	47	46	46	44	42	38
B5. 10 percent of GDP increase in other debt-creating flows in 2013	37	45	43	43	43	41	40	35
<b>PV of Debt-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	108	112	113	112	111	108	105	88
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	108	111	114	113	115	116	121	117
A2. Primary balance is unchanged from 2012	108	113	120	126	134	141	169	189
A3. Permanently lower GDP growth 1/	108	113	116	118	120	120	142	198
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	108	126	149	158	169	176	219	252
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	108	111	116	114	114	110	106	89
B3. Combination of B1-B2 using one half standard deviation shocks	108	115	122	129	138	143	177	203
B4. One-time 30 percent real depreciation in 2013	108	151	149	145	142	138	127	105
B5. 10 percent of GDP increase in other debt-creating flows in 2013	108	136	137	134	133	129	121	97
<b>Debt Service-to-Revenue Ratio 2/</b>								
<b>Baseline</b>	7	6	7	5	7	6	9	10
<b>A. Alternative scenarios</b>								
A1. Real GDP growth and primary balance are at historical averages	7	6	8	5	7	6	10	12
A2. Primary balance is unchanged from 2012	7	6	7	5	7	7	11	16
A3. Permanently lower GDP growth 1/	7	6	7	5	7	6	10	16
<b>B. Bound tests</b>								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	7	7	8	6	8	8	14	21
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	7	6	7	5	7	6	9	10
B3. Combination of B1-B2 using one half standard deviation shocks	7	7	8	6	8	7	12	17
B4. One-time 30 percent real depreciation in 2013	7	7	9	7	9	9	12	14
B5. 10 percent of GDP increase in other debt-creating flows in 2013	7	6	8	6	7	7	10	11

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

**Table 3a. Kyrgyz Republic: External Debt Sustainability Framework, Baseline Scenario, 2009–32 1/**  
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections						2012-2017		2018-2032	
	2009	2010	2011			2012	2013	2014	2015	2016	2017	Average	2022	2032	Average
<b>External debt (nominal) 1/</b>	<b>89.3</b>	<b>92.8</b>	<b>81.2</b>			<b>80.0</b>	<b>75.5</b>	<b>71.3</b>	<b>71.1</b>	<b>69.6</b>	<b>68.0</b>		<b>63.8</b>	<b>73.5</b>	
o/w public and publicly guaranteed (PPG)	54.1	56.5	48.4			47.5	46.8	45.2	46.1	45.5	43.7		38.5	33.6	
Change in external debt	16.0	3.5	-11.6			-1.2	-4.5	-4.1	-0.2	-1.5	-1.6		-1.3	1.2	
Identified net debt-creating flows	5.5	-4.8	-23.1			1.3	-6.0	-6.6	-5.0	-6.0	-6.2		-3.3	2.7	
<b>Non-interest current account deficit</b>	<b>1.6</b>	<b>5.6</b>	<b>5.8</b>	<b>2.4</b>	<b>6.2</b>	<b>7.1</b>	<b>4.6</b>	<b>2.7</b>	<b>0.8</b>	<b>0.7</b>	<b>0.2</b>		<b>1.3</b>	<b>5.3</b>	1.4
Deficit in balance of goods and services	24.4	29.0	28.3			35.9	31.0	27.1	27.7	27.7	27.0		25.1	26.3	
Exports	54.5	52.7	58.8			59.8	60.4	63.6	65.2	67.4	70.1		74.1	63.8	
Imports	78.9	81.7	87.2			95.7	91.5	90.7	92.9	95.1	97.1		99.2	90.2	
Net current transfers (negative = inflow)	-25.8	-29.0	-31.0	-21.6	8.9	-32.4	-31.5	-31.1	-32.2	-32.4	-31.9		-25.4	-22.4	-25.3
o/w official	-4.2	-1.6	-1.4			0.0	0.0	0.0	0.0	0.0	0.0		-0.4	-0.2	
Other current account flows (negative = net inflow)	2.9	5.6	8.4			3.6	5.1	6.7	5.3	5.4	5.1		1.6	1.3	
<b>Net FDI (negative = inflow)</b>	<b>-4.0</b>	<b>-9.1</b>	<b>-11.7</b>	<b>-5.5</b>	<b>3.5</b>	<b>-7.0</b>	<b>-6.4</b>	<b>-6.1</b>	<b>-5.5</b>	<b>-5.3</b>	<b>-5.2</b>		<b>-4.3</b>	<b>-4.4</b>	-4.4
<b>Endogenous debt dynamics 2/</b>	<b>8.0</b>	<b>-1.3</b>	<b>-17.1</b>			<b>1.1</b>	<b>-4.2</b>	<b>-3.2</b>	<b>-0.3</b>	<b>-1.3</b>	<b>-1.2</b>		<b>-0.3</b>	<b>1.8</b>	
Contribution from nominal interest rate	1.0	0.8	0.5			1.9	1.8	1.8	1.9	2.0	2.1		2.8	5.2	
Contribution from real GDP growth	-2.3	0.4	-4.3			-0.8	-6.0	-5.1	-2.2	-3.3	-3.2		-3.0	-3.4	
Contribution from price and exchange rate changes	9.3	-2.5	-13.4			...	...	...	...	...	...		...	...	
<b>Residual (3-4) 3/</b>	<b>10.5</b>	<b>8.3</b>	<b>11.5</b>			<b>-2.4</b>	<b>1.5</b>	<b>2.5</b>	<b>4.7</b>	<b>4.5</b>	<b>4.5</b>		<b>2.0</b>	<b>-1.4</b>	
o/w exceptional financing	0.0	0.0	0.0			-0.8	-2.7	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	63.6			65.2	61.0	57.7	57.4	56.3	55.4		53.1	64.9	
In percent of exports	...	...	108.1			109.1	101.0	90.6	88.1	83.5	79.1		71.7	101.7	
<b>PV of PPG external debt</b>	<b>...</b>	<b>...</b>	<b>30.8</b>			<b>32.7</b>	<b>32.4</b>	<b>31.5</b>	<b>32.4</b>	<b>32.2</b>	<b>31.2</b>		<b>27.9</b>	<b>24.9</b>	
In percent of exports	...	...	52.4			54.7	53.6	49.5	49.7	47.7	44.5		37.6	39.0	
In percent of government revenues	...	...	102.2			99.2	103.1	102.7	104.6	103.4	100.7		87.5	69.5	
<b>Debt service-to-exports ratio (in percent)</b>	<b>28.2</b>	<b>19.1</b>	<b>8.9</b>			<b>13.0</b>	<b>14.5</b>	<b>12.7</b>	<b>13.0</b>	<b>13.1</b>	<b>11.8</b>		<b>17.4</b>	<b>36.0</b>	
<b>PPG debt service-to-exports ratio (in percent)</b>	<b>3.3</b>	<b>3.6</b>	<b>2.8</b>			<b>2.6</b>	<b>2.3</b>	<b>2.2</b>	<b>2.3</b>	<b>2.4</b>	<b>2.3</b>		<b>2.8</b>	<b>3.7</b>	
<b>PPG debt service-to-revenue ratio (in percent)</b>	<b>6.7</b>	<b>6.9</b>	<b>5.5</b>			<b>4.8</b>	<b>4.4</b>	<b>4.5</b>	<b>4.7</b>	<b>5.3</b>	<b>5.3</b>		<b>6.4</b>	<b>6.5</b>	
Total gross financing need (Billions of U.S. dollars)	0.6	0.3	0.0			0.5	0.5	0.4	0.3	0.4	0.3		1.3	6.4	
Non-interest current account deficit that stabilizes debt ratio	-14.4	2.2	17.4			8.3	9.2	6.8	1.0	2.2	1.8		2.6	4.0	
<b>Key macroeconomic assumptions</b>															
Real GDP growth (in percent)	2.9	-0.5	5.7	4.1	3.6	1.0	8.5	7.5	3.3	5.0	5.0	5.1	5.0	5.0	5.0
GDP deflator in US dollar terms (change in percent)	-11.3	2.8	16.9	10.5	10.5	3.5	4.2	3.7	2.9	2.3	2.4	3.2	2.0	2.0	2.0
Effective interest rate (percent) 5/	1.2	0.9	0.7	1.3	0.4	2.5	2.6	2.7	2.8	3.0	3.2	2.8	4.5	7.7	5.5
Growth of exports of G&S (US dollar terms, in percent)	-7.8	-1.1	37.9	21.3	18.0	6.3	14.3	17.3	8.9	11.0	11.9	11.6	6.4	4.8	6.4
Growth of imports of G&S (US dollar terms, in percent)	-22.3	6.0	31.7	26.4	23.2	14.7	8.1	10.6	8.8	9.9	9.9	10.3	7.3	3.7	6.5
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	31.8	35.5	34.3	33.3	33.8	31.6	33.4	29.5	16.6	26.3
Government revenues (excluding grants, in percent of GDP)	27.1	27.7	30.2	...	...	33.0	31.4	30.7	31.0	31.1	31.0	...	31.9	35.8	31.8
Aid flows (in Billions of US dollars) 7/	0.6	0.3	0.3			0.2	0.3	0.2	0.3	0.2	0.2		0.3	0.4	
o/w Grants	0.2	0.1	0.2			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.2	
o/w Concessional loans	0.4	0.1	0.1			0.1	0.2	0.2	0.2	0.2	0.1		0.2	0.3	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.0	3.6	2.2	2.6	2.3	1.8		1.8	1.2	1.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			47.6	49.6	45.4	46.4	48.4	50.7		43.6	28.2	39.6
<b>Memorandum items:</b>															
Nominal GDP (Billions of US dollars)	4.7	4.8	5.9			6.2	7.0	7.8	8.3	8.9	9.6		13.5	26.6	
Nominal dollar GDP growth	-8.7	2.4	23.5			4.5	13.1	11.4	6.3	7.4	7.6	8.4	7.1	7.1	7.1
PV of PPG external debt (in Billions of US dollars)	...	...	1.8			2.0	2.2	2.4	2.6	2.8	2.9		3.7	6.6	
(Pvt-Pvt-1)/GDPt-1 (in percent)	...	...	...			3.1	3.9	2.7	2.9	2.1	1.4	2.7	1.4	1.7	1.5
Gross workers' remittances (Billions of US dollars)	1.0	1.3	1.8			2.0	2.2	2.4	2.7	2.9	3.1		3.4	5.9	
PV of PPG external debt (in percent of GDP + remittances)	...	...	23.8			24.7	24.6	24.0	24.5	24.3	23.6		22.3	20.4	
PV of PPG external debt (in percent of exports + remittances)	...	...	34.9			35.4	35.2	33.3	33.2	32.2	30.6		28.1	28.9	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.9			1.7	1.5	1.5	1.5	1.7	1.6		2.1	2.7	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes and accounts for the financing gap, which creates debt but is not included in the current or financial account.

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

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

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

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

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

**Table 3b. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012–32**  
(In percent)

	Projections							2032
	2012	2013	2014	2015	2016	2017	2022	
<b>PV of debt-to GDP ratio</b>								
<b>Baseline</b>	33	32	32	32	32	31	<b>28</b>	25
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2012-2032 1/	33	30	29	29	28	27	<b>28</b>	2
A2. New public sector loans on less favorable terms in 2012-2032 2	33	34	34	36	36	36	<b>36</b>	41
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	33	34	36	37	37	35	<b>32</b>	28
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	33	37	46	46	45	44	<b>38</b>	28
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	33	33	34	34	34	33	<b>30</b>	26
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	33	50	66	66	64	62	<b>52</b>	33
B5. Combination of B1-B4 using one-half standard deviation shocks	33	49	68	68	66	64	<b>54</b>	35
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	33	45	44	45	44	43	<b>39</b>	34
<b>PV of debt-to-exports ratio</b>								
<b>Baseline</b>	55	54	50	50	48	44	<b>38</b>	39
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2012-2032 1/	55	50	45	44	42	39	<b>38</b>	3
A2. New public sector loans on less favorable terms in 2012-2032 2	55	56	53	55	54	51	<b>49</b>	65
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	55	53	49	49	47	44	<b>37</b>	38
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	55	67	90	89	85	79	<b>64</b>	55
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	55	53	49	49	47	44	<b>37</b>	38
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	55	83	104	101	96	89	<b>70</b>	52
B5. Combination of B1-B4 using one-half standard deviation shocks	55	79	104	102	96	89	<b>71</b>	54
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	55	53	49	49	47	44	<b>37</b>	38
<b>PV of debt-to-revenue ratio</b>								
<b>Baseline</b>	99	103	103	105	103	101	<b>88</b>	69
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2012-2032 1/	99	97	94	93	91	88	<b>87</b>	5
A2. New public sector loans on less favorable terms in 2012-2032 2	99	107	110	115	116	115	<b>114</b>	116
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	99	110	117	119	118	114	<b>100</b>	79
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	99	116	149	149	146	142	<b>119</b>	78
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	99	106	109	111	110	107	<b>93</b>	74
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	99	160	215	213	207	201	<b>163</b>	92
B5. Combination of B1-B4 using one-half standard deviation shocks	99	157	221	219	213	207	<b>169</b>	98
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	99	143	142	144	143	139	<b>121</b>	96



**Table 3b. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012–32 (continued)**

(In percent)

Debt service-to-exports ratio								
<b>Baseline</b>	3	2	2	2	2	2	<b>3</b>	4
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2012-2032 1/	3	2	2	2	2	2	<b>2</b>	1
A2. New public sector loans on less favorable terms in 2012-2032 2	3	2	2	2	3	3	<b>3</b>	4
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	3	2	2	2	2	2	<b>3</b>	4
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	3	3	3	4	4	4	<b>5</b>	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	3	2	2	2	2	2	<b>3</b>	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	3	2	3	4	4	4	<b>5</b>	5
B5. Combination of B1-B4 using one-half standard deviation shocks	3	2	3	4	4	4	<b>6</b>	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	3	2	2	2	2	2	<b>3</b>	4
<b>Debt service-to-revenue ratio</b>								
<b>Baseline</b>	5	4	5	5	5	5	<b>6</b>	7
<b>A. Alternative Scenarios</b>								
A1. Key variables at their historical averages in 2012-2032 1/	5	4	4	4	4	4	<b>5</b>	2
A2. New public sector loans on less favorable terms in 2012-2032 2	5	4	5	5	6	6	<b>7</b>	8
<b>B. Bound Tests</b>								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	5	5	5	5	6	6	<b>7</b>	7
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	5	4	5	6	6	6	<b>9</b>	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	5	5	5	5	6	6	<b>7</b>	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	5	4	6	8	8	8	<b>13</b>	9
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	6	8	9	8	<b>13</b>	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	5	6	6	7	7	7	<b>9</b>	9
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	21	21	21	21	21	21	<b>21</b>	21

Sources: Country authorities; and staff estimates and projections.

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

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

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

4/ Includes official and private transfers and FDI.

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

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

## Appendix I. Letter of Intent

November 14, 2012

Ms. Christine Lagarde  
Managing Director  
International Monetary Fund  
700 19th street, N.W.  
Washington, DC, 20431  
USA

Dear Ms. Lagarde:

The second review of our economic and financial program, supported by an arrangement under the Extended Credit Facility (ECF), was completed by the IMF Executive Board on April 27, 2012. We are grateful to the IMF for its continued support of our economic reform program.

The ECF-supported program continues to play a pivotal role in our efforts to maintain macroeconomic stability and promote inclusive growth in a low inflation environment. The program helped to stabilize the Kyrgyz economy and to consolidate much-needed financial support from donors following the 2010 events. The economy rebounded strongly in 2011 after political stability and security was restored. This year, however, has turned out to be challenging. The economic situation has worsened because geological factors led to the partial deferral of gold production by the largest mining company to 2013–14. Following a brief period of political uncertainty in August, the swift appointment of a new government ensured that the impact on economic policy making was limited. However, we do not expect budget support from our development partners this year because of delays in implementing structural conditions under their programs.

These challenges notwithstanding, the program remains broadly on track and the new government is committed to the reform path under the ECF arrangement. All end-June 2012 quantitative performance criteria and all but one of the structural benchmarks were met. Structural reforms continued in line with our commitments in the Letter of Intent (LOI) and the Memorandum of Economic and Financial Policies (MEFP) dated June 2, 2011 and the LOIs dated November 17, 2011 and April 12, 2012. We have adopted an instruction for introducing through the treasury

management information system (TMIS) a commitment control system based on cash limits and approved the new organizational structure of the ministry of finance consistent with Fund advice. We have also completed the valuation of Zalkar bank and disseminated its sale prospectus. While we made considerable progress in drafting amendments to the anti-money laundering and combating the financing of terrorism (AML/CFT) law and the relevant provisions of the Criminal Code to strengthen the AML/CFT framework in line with the Fund's technical assistance advice, we need more time for amending the legislation and therefore ask to extend the deadline for its submission to parliament to end-December of this year.

In view of the successful implementation of the program to date and our continued commitment to the program, we request completion of the third review under the ECF-supported program and the fourth disbursement in the amount of SDR 9.514 million (US\$15 million). We also request that the fourth disbursement under the ECF arrangement be channeled to the budget. Moreover, we request the modification of the end-December 2012 quantitative performance criteria to reflect the changed macroeconomic outlook, lower-than-expected external financing, and concessional terms of the second phase of the energy infrastructure loan. The government believes that the economic and financial policies set forth in our LOI and MEFP of June 2, 2011, LOIs of November 17, 2011 and April 12, 2012, supplemented with this LOI and modified quantitative performance criteria and updated structural benchmarks (see Tables 1 and 2, respectively) are adequate to meet the objectives of the program. During the period of the ECF arrangement, the Kyrgyz government will continue to maintain a policy dialogue with the Fund and stand ready to take additional measures as needed and will consult with Fund staff on such measures and in advance of revisions contained in the MEFP dated June 2, 2011, LOIs of November 17, 2011 and April 12, 2012 and this updated LOI in accordance with Fund policies.

We also note that the Medium-Term Development Program (MTDP) for 2012–14 approved in April 2012 remains the government's main economic document. The annual progress report will update the underlying macro-framework and incorporate recommendations outlined in the Joint Staff Advisory Note.

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

### **Policies for the Remainder of the Year and Beyond**

1. The policies and commitments set out in the LOI and MEFP dated June 2, 2011, the LOIs dated November 17, 2011 and April 12, 2012, remain valid and are updated with this LOI.
2. **Macroeconomic stability remains the cornerstone of our program.**
  - Growth in 2012 is expected to be weak at 1 percent compared to 5 percent projected earlier because geological factors have led to a deferral of a third of this year's projected gold production to the next two years. As a result, we anticipate a strong recovery at 6.5 percent on average in the medium term.
  - Headline inflation dropped sharply in the first half of 2012, but starting from August inflationary pressures reemerged with rising food and fuel prices. We will continue to keep monetary conditions tight to maintain inflation in single digits in 2012 and beyond.
  - The current account deficit is projected to widen to 9 percent of GDP in 2012 from 6.3 percent in 2011, reflecting higher oil prices and lower gold exports. In 2013–14, we anticipate that a recovery of gold exports will drive the current account deficit down.
  - Despite lower growth this year, fiscal consolidation is expected to continue as planned. The fiscal deficit excluding foreign-financed energy infrastructure projects is expected to decline to 2.6 percent of GDP by 2014.
  - Public debt in percent of GDP is projected to remain on its downward path in the medium-term, including by the recent completion of the Russian debt relief.
3. **We are mindful of the risks to our medium-term projections.** A deterioration of global economic conditions could spill over to the Kyrgyz economy through reduced external demand and lower remittances from Russia. Moreover, a sustained increase in international food and fuel prices could put pressure on inflation and exacerbate external vulnerabilities. Continued high gold prices mitigate adverse external conditions.

## A. Fiscal Policy

**4. Shortfalls in revenues and external financing required expenditure cuts in 2012 but critical social expenditures are being safeguarded.** The fiscal deficit excluding energy infrastructure projects is now forecast at 3.8 percent of GDP compared to 4.6 percent expected earlier.

- Lower gold production has led to a decline in gold-related revenues. Delays in implementing structural measures agreed with the Asian Development Bank and the World Bank, including because of the recent change in government have resulted in financing shortfalls. The revenue-smoothing arrangement with the Kumtor gold company and better-than-expected customs revenues related to higher oil imports and improved customs administration have partially offset the shortfall in revenues.
- Owing to the decline in the overall resource envelope, we reduced spending on goods and services and capital projects while maintaining social outlays. At the same time, we increased allocations for foreign-financed energy infrastructure projects mainly because of faster-than-expected implementation. Consistent with our efforts to increase fiscal transparency, we incorporated two small extra-budgetary funds and the Kumtor-financed microcredit project into the budget. These operations were deficit neutral.

**5. The new government places great emphasis on fiscal consolidation in 2013 and over the medium term.** The 2013 budget is guided by conservative revenue forecasts, non-priority expenditure restraint, and social considerations. The overall fiscal deficit excluding energy infrastructure projects in 2013 is expected at 3.2 percent of GDP, in line with our goal of medium-term fiscal consolidation.

- Our efforts to strengthen tax administration and reduce noncompliance will continue, including with the support from the IMF. We do not expect the exceptionally strong growth in customs revenues in 2013 to continue, leading to a decline in tax revenues in percent of GDP. We will implement a formal compliance improvement plan as an ongoing annual activity with performance indicators covering three to five sectors that pose a significant revenue compliance risk. Nontax revenues in percent of GDP are also expected to decline because of one-off payments collected during 2012 and the reform to regularize government provided fee-based

services. We will consult with Fund staff on any tax policy measures to ensure that they are consistent with our program commitments.

- We will ensure that the pension increase in 2013 is tied to the changes in the minimum subsistence level. Our draft pension reform concept paper discusses various options for making the pension system more equitable and affordable. As part of our broad consultative process, we invite our development partners to comment on the draft concept paper.
- To support our poverty reduction efforts, we raised outlays on targeted social assistance by increasing the size of the guaranteed minimum income from KGS 370 to KGS 580.
- We remain committed to reducing the overall wage bill in percent of GDP. Savings generated by the ongoing civil service reform will allow us to increase wages in segments of the public sector.
- The ongoing public procurement reform, including the planned introduction of e-procurement, will also generate significant fiscal savings by reducing outlays on goods and services.

**6. We are advancing public financial management reforms.** The adoption of an instruction for introducing through TMIS a commitment control system based on cash limits and a unified chart of accounts, as well as the approval of a new structure of the ministry of finance, were important steps. However, these and other reforms need to be fully realized. In particular, we will extend treasury coverage to include the social fund and introduce comprehensive cash planning, which along with the planned introduction of the treasury single account will significantly strengthen transparency and efficiency of treasury operations. We have also developed a Budget Code that consolidates all fiscal legislation into a single document with technical assistance from the World Bank. We have also incorporated comments provided by IMF staff.

**7. We are committed to improving debt management and to reducing the debt service burden on the budget.** We are updating our medium-term debt management strategy adopted as part of conditionality under the ECF arrangement. We will ensure that comments from Fund and World Bank staffs are reflected in the updated document. To develop the domestic debt market, we are improving the operational infrastructure for the primary market of government securities at the NBKR, which will remain the government agent for conducting primary auctions and the central depository for all government securities. To further deepen the domestic debt market we are considering various incentives for primary dealers of government securities to encourage their

participation. To that effect, we will discuss any new proposals with Fund staff and are looking forward to the planned Financial Stability Assessment Program in the second half of 2013.

**8. We managed to reduce external debt vulnerabilities.** According to the recent agreement with Russia, debt in the amount of US\$188.9 million will be written-off this year and the remaining US\$300 million will be written-off in 2016–25. We completed intra-governmental procedures for the write-off of Turkish debt in the amount of US\$49.2 million. We also successfully renegotiated the loan for the second phase of the energy infrastructure project to ensure concessionality and request to modify the debt limit by introducing a zero ceiling on contracting or guaranteeing of new nonconcessional external debt by the public sector.

**9. In light of the effectiveness of the new reporting requirements introduced for the 10 largest state-owned enterprises (SOEs) we intend to expand the coverage to 20 by end-March 2013 (structural benchmark).** Dividend payments to the budget increased because we now understand better SOEs' financial positions. The proposed expansion of the list should help mobilize additional revenues and reduce potential fiscal costs through improved monitoring. We will also ensure that all reports from these SOEs are shared regularly with the ministry of finance and the ministry of economy.

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

**10. The NBKR will maintain a tight monetary policy stance to keep inflation in single digits in 2012 and beyond.** The complete pass-through from rising international food and fuel prices to domestic prices is putting upward pressure on the overall price level. The pension increase is adding to upward pressures on core inflation. In case the food price shock this year is more permanent, the NBKR will tighten monetary policy further, to prevent second round effects. The NBKR will maintain its policy of intervening in the foreign exchange market only to smooth out excessive volatility and ensure orderly market conditions.

**11. We plan to improve monetary and foreign exchange management.** To that effect, we requested IMF technical assistance in inflation modeling and monetary tools. In particular, we need to improve near- and medium-term inflation forecasting and strengthen the monetary policy transmission mechanism. In addition, we are looking forward to IMF technical assistance to

strengthen the NBKR's capacity in international reserve management. The NBKR and the Ministry of Finance will continue the close cooperation to facilitate liquidity management.

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

- We will revise the current sales strategy of the Savings and Settlement Company (SSC) (structural benchmark) to ensure that the majority of its shares are privatized over the medium term. To that effect, we consider requesting technical assistance from our development partners. We will also ensure that the development lending funded by the government is gradually phased out and SSC's growth is effectively monitored and controlled going forward. In this regard, we are not planning any new capital injections.
- With the help from the IFC, we have completed the valuation of Zalkar Bank and prepared and disseminated the prospectus. We have announced December 11 as the auction date and are now ready to complete the sale of Zalkar Bank before end-December 2012. However, should the sale of the bank fail, we will, by end-March 2013, proceed in accordance with the relevant provisions of the law on banks and banking activity and the law on conservatorship, liquidation, and bankruptcy of banks.
- Work on the Banking Code is progressing. As of end-August 2012, a SECO-funded resident legal advisor has been assigned to work with the NBKR on the completion of the draft Banking Code and to provide training to enhance the capacity of the NBKR's legal department. In light of the recent arrival of the Legal Advisor, we request to re-phase the structural benchmarks related to the submission of the Banking Code to the government to end-April 2013 and to parliament to end-September 2013.

**13. We will continue to work on strengthening the AML/CFT regime with Fund technical assistance.** The September 2012 technical assistance mission discussed with us the draft provisions of the Criminal Code, the Administrative Liability Code, the Terrorist Assets Freezing Regulations, and the AML/CFT Law. The parliament has recently adopted some of the provisions of the Criminal Code. However, to ensure full compliance with international standards, more



internal consultation is needed before we can submit other provisions of the Criminal Code and the draft AML/CFT Law to parliament. We therefore request to delay the relevant structural benchmark to end-December 2012.

## C. Structural Policies

### 14. We are pressing ahead with reforms to improve governance and the business

**environment.** Efforts to reduce public sector bureaucracy and to improve the quality and efficiency of public services are ongoing. We are working toward strengthening property rights and making efforts in combating corruption. In August, we adopted a new anticorruption law, which, among other measures, will more actively involve civil society in the implementation of the government's anticorruption strategy. In cooperation with the World Bank, the Asian Development Bank, and USAID we have developed and adopted a medium-term energy sector strategy for 2012–17. The strategy aims at improving the public administration of the sector and increasing energy efficiency and output. In addition, to move toward a financially viable energy sector, we have designed a new surcharge on electricity tariffs for servicing the debt obligations of the energy companies related to investments in transmission lines. With the aim to increase the attractiveness of the Kyrgyz Republic as a tourist destination and attracting more investment, we recently introduced a visa-free regime for citizens of 44 countries.

### 15. The State Development Bank (SDB) law has been recently approved by parliament.

Consistent with our commitments, we will continue close cooperation with IMF staff and other donors on the set-up and operations of the SDB. We are also studying successful examples of development banks in other countries and will reflect on their experience. The government will ensure that all regulations of the SDB are consistent with international best practice and principles of good governance and transparency. All public resources to the SDB will be channeled through the budget.

## D. Program Monitoring

16. **The ECF-supported program will continue to be monitored through quantitative performance criteria, indicative targets, and structural benchmarks.** Quantitative performance criteria and indicative targets for December 2012, March 2013, June 2013, September 2013, and December 2013 and continuous performance criteria are set out in

Table 1 and structural benchmarks are set out in Table 2. Program reviews will continue to be conducted semi-annually, based on end-June and end-December test dates. The fourth and fifth reviews are expected to take place on or after April 15, 2013, and on or after November 15, 2013, respectively. The understandings between the Kyrgyz authorities and IMF staff regarding the quantitative performance criteria and structural benchmarks described in this LOI and reporting requirements are further specified in the Technical Memorandum of Understanding (TMU) as updated in the attached.

Sincerely yours,

/s/

Zhantoro Satybaldyev

Prime Minister of the Kyrgyz Republic

/s/

Olga Lavrova  
Minister of Finance of  
the Kyrgyz Republic

/s/

Zina Asankojoeva  
Chairperson of the National  
Bank of the Kyrgyz Republic

**Table 1. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, June 2012–December 2013**  
(In millions of soms, unless otherwise indicated; eop)

	2012					2013							
	June				Status	September	December			March	June	September	December
	QPC					IT	QPC			IT	QPC	IT	IT
	1st Rev.	2nd Rev.	Adj.	Act.	2nd Rev.	2nd Rev.	Revised						
<i>Quantitative performance criteria 1/</i>													
1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars)	1,678	1,635	1,611	1,725	Met	1,678	1,742	1,723	1,758	1,788	1,879	1,961	
2. Ceiling on net domestic assets of the NBKR (eop stock)	-10,310	-10,368	-8,993	-16,271	Met	-10,491	-9,325	-11,633	-13,905	-11,846	-12,298	-12,330	
3. Ceiling on cumulative overall cash deficit of the general government 2/	6,502	7,213	7,016	3,133	Met	12,703	18,145	17,629	920	6,486	8,939	17,855	
4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars)	250	400	400	0	Met	400	400	0	0	0	0	0	
5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	0	Met	0	0	0	0	0	0	0	
<i>Indicative Targets 1/</i>													
1. Ceiling on reserve money	60,453	58,339	58,339	56,696	Met	60,222	64,406	63,574	62,935	66,398	70,231	74,070	
2. Cumulative floor on state government tax collections 2/	26,861	26,069	26,069	29,747	Met	42,874	62,573	64,458	15,055	31,412	50,340	72,950	
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit (UMB) and Monthly Social Benefit (MSB) programs 2/	1,444	1,444	1,444	1,594	Met	2,166	2,888	2,888	1,112	2,224	3,337	4,449	

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

1/ As defined in the TMU.

2/ Cumulative from the beginning of the year.

**Table 2. Kyrgyz Republic: Structural Benchmarks under the Extended Credit Facility for 2012–13**

Measure	Timing	Macroeconomic Rationale
<b>Structural Benchmarks</b>		
<b>I. FISCAL POLICY</b>		
Adopt a government resolution on the procedures for submission of budgets of the next 10 largest SOEs to be approved and monitored by the government.	End-March, 2013	Reduce fiscal risks stemming from state-owned enterprises and boost revenues from dividends.
<b>II. FINANCIAL SECTOR</b>		
Complete Zalkar sale	End-December, 2012	Complete resolution of Zalkar Bank.
Revise and issue a cabinet-approved SSC sales strategy that ensures the divestiture of the majority of the bank's shares over the next two years.	End-February, 2013	Reduce the government's involvement in commercial banking activity.
Submit the draft Banking Code (including Law on Banks and Banking Activity, Law on Conservatorship, Liquidation, and Bankruptcy of Banks, Law on NBKR) consistent with Fund TA advice, to (i) strengthen the legal framework for early intervention and resolution of problem banks; (ii) limit the scope of judicial review of actions taken by the NBKR; and (iii) enhance legal protection for NBKR staff and agents. The Banking Code reform will also: (i) establish the NBKR's sole authority to hold and manage official foreign reserves; and (ii) extend the term of engagement of the NBKR external auditors.		Strengthen bank resolution framework and supervisory independence of the NBKR. This will also ensure the supremacy of the NBKR law over other laws and regulations that might affect the NBKR;  Strengthen institutional and financial autonomy of the NBKR.
(i) to government	End-April, 2013	
(ii) to parliament	End-September, 2013	
In line with the Fund's TA advice, submit to the parliament draft amendments to the AML/CFT law and to the relevant provisions of the Criminal Code to strengthen the AML/CFT legal framework. These provisions include the criminalization of money laundering and terrorist financing; identification, tracing, and freezing of terrorist assets; confiscation of funds related to money laundering; and customer due diligence measures for all financial institutions.	End-December, 2012	Bring the AML/CFT legislation in line with the Financial Action Task Force standard.

# ATTACHMENT I. Revised Technical Memorandum of Understanding

November 14, 2012

## Introduction

1. This memorandum defines the quantitative performance criteria, indicative targets and adjustors, and establishes the content and frequency of the data to be provided to IMF staff for program monitoring related to the economic program supported by an arrangement under the Extended Credit Facility (ECF). The indicators presented in Table 1 of the Letter of Intent dated November 14, 2012 reflect the understandings on quantitative performance criteria reached between the authorities of the Kyrgyz Republic and staff of the IMF.

## Quantitative Performance Criteria

### A. Definitions and concepts

2. **Test dates.** Quantitative performance criteria are set semi-annually starting June 30, 2011 through June 30, 2013, and are to be met at the end of each period.
3. **National Bank of the Kyrgyz Republic (NBKR).** The NBKR is the central bank of the country and is responsible for the formulation and implementation of monetary policy, bank supervision, and the payment system. For the purpose of the program, the NBKR includes all its central and regional offices.
4. **Public sector.** For the purpose of the program, the public sector comprises the general government, the NBKR, the ten largest nonfinancial public enterprises (enterprises and agencies in which the government owns more than 50 percent of the shares, but which are not consolidated in the budget, as listed in Table 1), and any other newly created public development institution. The State budget comprises central and local government budgets. The general government budget includes the State and Social Fund budgets.
5. **Foreign-financed Public Investment Program (PIP) loans and grants.** The foreign financed PIP is a program of investments in infrastructure and social sectors agreed by the general government of the Kyrgyz Republic and its donors (including but not limited to international financial organizations). The PIP is fully financed by related grants and loans.

- 6. Program loans and grants** are loans and grants received by the general government for direct budget support from external donors and not related to PIP financing.
- 7.** The stock of **external payment arrears** for program monitoring purposes is defined as the end-of-period amount of external debt service due and not paid within the grace period specified in the relevant debt contract, including contractual and late interest. For arrears to exist, a creditor must claim payment of amounts due and not paid. Amounts in dispute are not considered arrears. Arrears for which a clearance framework/rescheduling or restructuring has been agreed with the creditor are not considered arrears for program monitoring purposes. Program arrears would include any debt service due under such agreements that has not been paid.
- 8. Concessional and nonconcessional debt.** Concessional debt is defined as debt with a grant element equivalent of 35 percent or more. The grant element of a debt is the difference between the present value (PV) of the debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more). The debt refers also to commitments contracted or guaranteed and for which value has not been received. The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees. The calculation is performed by the authorities and verified by the IMF staff based on the data provided by the authorities.
- 9. Valuation changes (program exchange rates).** For program monitoring, U.S. dollar-denominated components of the NBKR's balance sheets will be valued at the program exchange rates. The program exchange rate of the KGS to the U.S. dollar is set at the end-2010 exchange rate of KGS 47.0992 = US\$1. The corresponding cross exchange rates and program gold price for the duration of the program are provided in Table 2.

## B. Quantitative performance criteria

### Floor on net international reserves of the NBKR in convertible currencies <sup>1</sup>

#### *Definitions*

**10. Net international reserves (NIR) of the NBKR.** The floor on NIR will be calculated as the difference between total international reserve assets and total international reserve liabilities of the NBKR in convertible currencies. Total international reserve assets of the NBKR are defined as the NBKR holdings of monetary gold, holdings of SDRs, reserve position in the IMF, and any holdings of convertible foreign currencies in cash or with foreign banks, and debt instruments issued by nonresidents that are liquid. Accrued interest on deposits, loans, and debt securities are included in reserve assets and liabilities, correspondingly. Reserve assets pledged as collateral or otherwise encumbered, capital subscriptions in foreign financial institutions, and illiquid assets of the NBKR are excluded. Also excluded are net forward positions, defined as the difference between the face value of foreign-currency denominated NBKR off-balance sheet claims on nonresidents and foreign currency obligations to both residents and nonresidents. Total international reserve liabilities of the NBKR in convertible currencies are defined as the sum of Kyrgyz Republic's outstanding liabilities to the IMF and other convertible currency liabilities to nonresidents with an original maturity of up to and including one year. NIR is not affected when foreign assets are received by the NBKR through foreign currency swaps with resident financial institutions. Total international reserves and NIR decline with the provision of foreign assets by the NBKR through foreign currency swaps with resident financial institutions.<sup>2</sup> For program monitoring purposes, total international reserve assets and liabilities will be valued at the program exchange rates as described in paragraph 9. Thus calculated, the stock of net international reserves in convertible currencies amounted to US\$1,638 million on December 31, 2011.

**11. Net foreign assets (NFA) of the NBKR.** NFA consist of net international reserve assets plus other net foreign assets, including the medium- and long-term foreign obligations of the NBKR,

<sup>1</sup> Convertible currencies are defined as currencies that are freely usable for settlements of international transactions.

<sup>2</sup> In case of a foreign currency swap that involves receipt of foreign currency by the NBKR and transfer of local currency to a resident financial institution, total international reserves increase, NIR is unchanged, and net claims on domestic banks in soms increase. In case of a foreign currency swap that involves transfer of foreign currency by the NBKR and receipt of local currency from a resident financial institution, total international assets and NIR decline, while the NBKR net claims on resident banks remain unchanged.

other net claims on CIS countries, reserve assets pledged as collateral or otherwise encumbered, capital subscriptions in foreign financial institutions, and illiquid assets. For program monitoring purposes, other NFA will also be valued at program exchange rates.

### ***Adjustors***

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

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

#### ***Definitions***

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

**14.** Thus defined, NDA consist of: (a) net claims to the general government from the NBKR; (b) net claims to other depository corporations by the NBKR; (c) net claims on other financial corporations; and (d) all other net assets of the NBKR (other items net). Thus defined, the stock of NDA amounted to minus KGS 14,062 million on December 31, 2011.

### ***Adjustors***

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

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

#### ***Definitions***

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



- a. the change in the stock of net claims of the domestic banking system and nonfinancial institutions and households on the general government. The change in the stock of net claims of the domestic banking system on the general government is defined as the change in the stock of the banking system claims on the general government, less the change in the stock of all deposits of the general government with the banking system. The claims of the banking system on the general government include: bank loans to the general government; any securities issued by the general government and held by domestic banks, with the exception of those issued in relation with bank rescue operations; and overdrafts on the current accounts of the general government with banks;
  - b. the change in the stock of net claims of foreign governments, banking systems, and nonfinancial institutions and households on the general government;
  - c. net privatization receipts, i.e. any new sales net of purchases of shares;
  - d. net foreign loans disbursed to the general government for budgetary support; and
  - e. net foreign loans disbursed to the general government for PIP financing.
- 17.** The quantitative performance criteria for the fiscal balance are calculated on the projected exchange rate. Reporting and adjustments, as defined above, will be made using current exchange rates.

### ***Adjustors***

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

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

### ***Definitions***

- 19. Debt.** In connection with the contracting or guaranteeing of short-, medium-, and long-term external debt by any entity of the public sector, for program purposes, the definition of debt is set out in Executive Board Decision No. 6230–(79/140, Point 9, as revised on August 31, 2009 (Decision No. 14416–(09/91)) and reads as follows:
- a. For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:
    - i. loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
    - ii. suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and
    - iii. leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments

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

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

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

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

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

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

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

## C. Indicative targets

### Ceiling on reserve money

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

### **Cumulative floor on state government tax collections**

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

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

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

## **Reporting Requirements Under the Arrangement**

**28.** The government and the NBKR will provide the IMF with the necessary economic and financial statistical data to monitor economic developments and the quantitative targets (see Table 4). In particular, the government and the NBKR will provide the following specific information.<sup>3</sup>

### **A. The balance sheet of the NBKR**

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

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<sup>3</sup> Any correction or revisions to data previously reported should be clearly indicated and documented along with the reasons for the revision.

## B. Monetary survey

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

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

## C. International reserves and key financial indicators

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

## **D. External debt**

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

## **E. Budgetary and extra budgetary data**

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

## **F. Balance of payments data**

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

## **G. Other general economic information**

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

**Table 1. Kyrgyz Republic: Ten largest SOEs**

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

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

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

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

	2012 1/		2013 1/		
	December	March	June	September	December
Program grants	16.1	23.6	30.7	57.5	61.4
Program loans	2.1	3.3	6.6	35.8	39.1
Public investment program loans	127.5	19.5	66.9	93.5	191.7
Amortization of public external debt	43.1	6.7	21.1	28.1	45.1
Interest payments	39.6	9.7	13.8	25.0	35.7

1/ Cumulative disbursements since the beginning of the year.

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

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





# KYRGYZ REPUBLIC

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

November 14, 2012

Prepared By

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

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# ANNEX I. KYRGYZ REPUBLIC—RELATIONS WITH THE FUND

(As of September 30, 2012)

**I. Membership Status:** Joined: May 08, 1992;

Article VIII

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

<b>III. SDR Department:</b>	<b>SDR Million</b>	<b>%Allocation</b>
Net cumulative allocation	84.74	100.00
Holdings	111.89	132.04

<b>IV. Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>%Quota</b>
ESF Arrangements	33.30	37.50
RCF Loans	22.20	25.00
ECF Arrangements	59.47	66.97

## **V. Latest Financial Arrangements:**

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Jun 20, 2011	Jun 19, 2014	66.60	28.54
ESF	Dec 10, 2008	Jun 09, 2010	66.60	33.30
ECF <sup>1/</sup>	Mar 15, 2005	May 31, 2008	17.76	17.76

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

## **VI. Projected Payments to Fund <sup>2/</sup>**

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

	Forthcoming				
	2012	2013	2014	2015	2016
Principal	0.51	11.36	13.33	11.04	14.97
Charges/Interest		0.08	0.24	0.22	0.18
<b>Total</b>	0.51	11.44	13.57	11.26	15.15

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

## VII. Status of HIPC and MDRI Assistance

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

## VIII. Safeguards Assessments

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

## IX. Exchange Rate Arrangements

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

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

## **X. Article IV Consultations**

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

## **XI. FSAP Participation and ROSC Assessment**

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

## **XII. Resident Representative**

The eighth resident representative of the Fund in the Kyrgyz Republic, Mr. Gvenetadze, took up his post in Bishkek in October 2009.

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

(As of November 6, 2012)

**World Bank Group Strategy:** The Kyrgyz Republic Interim Strategy Note (ISN) for FY12–13 was discussed by the Board in August 2011. The ISN focuses on the country’s recovery and stabilization needs, while paving the way for support for long-term development. The need for an interim strategy approach was underscored by the fragile political, social and economic situation in the country and the absence of a medium-term development framework upon which a full IDA strategy could be based. The ISN is built around the ongoing program of the elected government, and focuses on governance and the restoration of economic and social stability. Currently the Bank jointly with the IFC are working on preparation of the next Country Assistance Strategy (CAS) covering FY14–17 expecting to be presented to the Board in July 2013.

### **Budget Support and Investment Lending**

FY12 Program: The entire IDA allocation for FY12 in the amount of US\$58.8 million was approved. The Economic Recovery Support Operation, a single tranche budget support operation (US\$30 million) was approved and fully disbursed. Additional Financing (AF) for Bishkek and Osh Urban Infrastructure Project (US\$15.8 million) was approved and has become effective. Financial Sector Development Project (US\$13 million) was approved in March 2012 and is expected to become effective in February 2013. The delay is caused by the review of the project’s Financial Agreement by Parliamentary committees.

FY13 Planned IDA Program: In FY13, a total of up to US\$67.2 million is planned for: the Education Sector Support Program (US\$16.5 million), Second Health and Social Protection Project (US\$16.5 million), Programmatic DPO (US\$30 million), AF2 for Village Investment Project2 (US\$4.2 million).

FY13 Planned Trust Funds (TF) Program: Up to US\$40.2 million for: GAFSP for irrigation (US\$16.5 million), Global Fund for Education (US\$12.7 million), Health Results-Based Financing (US\$11 million).

In FY13 AF–2 for Health and Social Protection (SWAp) (US\$24 million) was ratified by the Kyrgyz Parliament after extended deliberations, with the condition that the design will be adjusted.

### **Analytical Advisory Activities**

FY12 Analytical Advisory Activities (AAA) program included: Public Expenditure Review, Kyrgyzstan Conflict Analysis Filter, Gender Assessment, Preparation of a New Statistical Master Plan (SMP–2) and Information fMatters–Transparency and Accountability GPF grant.

FY13 AAA program: continuation of the public expenditure review, analytical poverty work, climate change, PSD reform, governance reform, and preparation of CAS.

### **Trust Funds**

In addition to IDA funds, the Bank manages a significant number of co-financing and stand alone Trust Funds (TF). The current TF portfolio amounts to a total of US\$100 million including 31 Bank and 14 Recipient Executed TFs. The largest are co-financing for Agribusiness and Marketing (US\$4.7 million), Water Management Improvement (US\$4.4 million), Second Village Investment (US\$13.7 million), Public Financial Management (US\$7.5 million) and stand-alone TFs, which include Fast Track Initiative-2 (US\$6 million), EU Food Crisis Rapid Response (US\$9.75 million), EITI Implementation (US\$8 million), EITI (US\$6.9 million), Agricultural Productivity (US\$6.8 million).

### **IFC Program and Portfolio**

The International Finance Corporation (IFC) continues to contribute to sustainable private sector development with long-term financing and advisory services to local financial institutions, and direct financing to small enterprises for the expansion and modernization of their operations. The engagement of IFC has accelerated in the period of 2009–12, and these efforts have been complimentary to WB efforts in private sector development and development of the financial sector. IFC will continue focusing on private sector development and aiming to increase its investments with a particular focus on the banking, manufacturing, mining, and agribusiness sectors. In addition, IFC is planning to participate in financing investment programs of privatized entities if privatization is undertaken in an open and transparent manner and in line with international best practice. In infrastructure, IFC is exploring opportunities, primarily on a sub national basis, in power transmission, hydropower plants, and municipal utilities. In addition, an IFC PPP Advisory program is being implemented in the Central Asia region and IFC is seeking to engage with the Kyrgyz government to assist with privatizations and concessions. IFC PPP team provided assistance in managing privatization of Zalkar Bank and will be assisting the Government in implementing CASA 1000 energy project.

IFC Strategy and Program:

- Increase access to finance for MSMEs by strengthening local financial institutions and providing credit lines for MSME financing to local banks and expanding microfinance institutions.
- Develop institutional capacity and support capacity building of financial institutions (including leasing and insurance, if there are opportunities) and microfinance companies and improve corporate governance in local enterprises.
- Increase private sector participation in infrastructure through selective advisory and investment climate engagement.
- Assist the agribusiness sector directly and through MSMEs finance to banks and microfinance companies.

- Support the improvement of business environment and investment climate.

Since becoming a member of IFC in 1993, the Kyrgyz Republic has received commitments totaling more than US\$120 million from IFC's own funds to finance more than 35 projects in the financial, banking and microfinance, oil, gas and mining sector, agribusiness, pulp, and paper sectors. New commitments in 2012 amounted to US\$10.7 million for investments in three projects representing banking, microfinance, and infrastructure sectors. As of July 1, 2012, IFC's committed portfolio was US\$40 million, which includes investments in nine companies, representing banking, microfinance, real and infrastructure sectors.

IFC will continue its advisory services work in the financial sector, developing corporate governance and improving the business environment. The Azerbaijan-Central Asia Financial Infrastructure Project is planning to continue its work on the Code of Conduct, strengthen the institutional capacity of a private credit bureau, and possibly work on the special law on credit bureaus. The Investment Climate project continues working with the government on ensuring higher transparency standards by helping to develop the amendments to the new Law on Inspections which were approved in 2012 and worked with inspectorates on introducing risk-based criteria for inspections and using checklists during inspections. In order to address the revenue transparency and financial disclosure challenge in the Kyrgyz Republic, a new Project on Regulatory Reform and Tax Transparency has been launched in 2011 to identify the main policy constraints, root causes of low formalization, poor tax compliance by real sector companies, and define a set of actionable policy options to increase compliance and formalization. The project will complement the efforts of IFC's Investment Climate work and facilitate an increase in IFC investments in the real sectors of the economy.

**MIGA** has supported private sector development in the Kyrgyz Republic by extending guarantees to foreign direct investments in four projects in the manufacturing, services, and mining sectors. The total amount of foreign direct investment facilitated by MIGA guarantees is over US\$360 million.

MIGA's current portfolio in the Kyrgyz Republic consists of guarantees for two projects in the transport sector: an airline (Kyrgyz Airlines) and an airport services company (Manas Management Company). The projects are owned by Austrian and Italian investors. The combined gross exposure from these projects is US\$14.8 million. Both of these projects were the subject of disputes between the investors and the Government during the last four years. The settlement between the Kyrgyz Government and investors, which was worked out in May of 2008 with MIGA's mediating role, has now been fully implemented by both sides. This finally resolves this matter that had been pending for more than four years. In August 2009 MIGA's guarantee holders withdrew their claim against MIGA and released MIGA from any liability. In addition, they have dismissed their claims against the government, which had been pending in the London Court of International Arbitration. There were no new MIGA projects in the Kyrgyz Republic in FY12.

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

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



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

(As of September 30, 2012)

The Kyrgyz Republic joined ADB in 1994. ADB's country partnership strategy for the Kyrgyz Republic is presented in the joint country support strategy (JCSS) for 2007–10. The JCSS was prepared in cooperation with four development partners—the Swiss Cooperation, the United Kingdom's Department for International Development, the United Nations Agencies, and the World Bank Group. Four other development partners—the European Commission, the German Government (presented by GTZ and KfW), International Monetary Fund, and United States Agency for International Development joined the JCSS at the later years. In line with the country development strategy, the JCSS identifies four priority areas: (i) promoting economic management consistent with strong and sustained pro-poor growth; (ii) improving governance, promoting effective public administration, and reducing corruption; (iii) building sustainable human and social capital; and (iv) ensuring environmental sustainability and natural resources management. ADB's new Country Partnership Strategy for 2013–17 is currently being prepared and is expected to be approved in 2013.

ADB's Country Operations Business Plan (COBP) for 2012–13 is under preparation and expected to be approved by the end of 2012. The strategic thrust will remain the same as in the previous COBP 2011–12—creating a favorable environment for sustainable inclusive growth with broader private sector participation. ADB will continue to support: (i) transport; (ii) water supply and sanitation; (iii) energy; (iv) public sector management to improve investment climate; and (v) education (vocational education and skills development, and higher education).

ADB is one of the major development partners in the country. All assistance provided to the Kyrgyz Republic is from concessional ADB's special fund resources—Asian Development Fund (ADF). The Kyrgyz Republic has been eligible for 50 percent grant and 50 percent ADF loan since 2009. The indicative allocation for 2012 is US\$134.4 million. ADB's annual lending began with US\$40 million in 1994 and reached the peak level of US\$167.8 million in 2010.

As of 30 September 2012, the country has received 34 loans worth US\$816.2 million, 15 ADF and one GEF grants worth US\$299.1 million. The Kyrgyz Republic has also received seven grants from Japan Fund for Poverty Reduction (JFPR grants) amounting to US\$7 million. ADB is the largest funding agency in the transport and education sectors.

The active ADB portfolio of 13 projects (total size of US\$480.9 million) contained nine ADF loans (total size of US\$220.2 million) and eleven ADF grants (total size of US\$260.7 million).

ADB has also provided 79 technical assistance (TA) projects amounting to US\$44.15 million as of today. ADB also provides TA through the regional technical assistance facility. Among the most recent assistance is technical assistance for developing an e-procurement strategy for the Kyrgyz Republic.

The performance of ADB's portfolio is partially satisfactory. Contract awards and disbursements as of September 30, 2012 reached US\$55.14 million and US\$34.95 million (63.6 percent and 57.6 percent of year's projections), respectively. The Kyrgyz portfolio has one project with actual problems and three projects with potential problems. The Community-Based Infrastructure Services Sector Project remains an "actual problem" project due to poor project management and integrity issues, and was suspended on June 11, 2012. The three projects are potential problem projects due to delays in implementation and disbursements.

The Kyrgyz Republic is a strong advocate for regional economic cooperation, and is an active participant in the Central Asia Regional Economic Cooperation (CAREC) Program. The Kyrgyz Republic has benefited significantly from regional road development. Following CAREC initiatives in key areas approved at sector meetings, the Kyrgyz Republic is taking measures in trade policy and trade facilitation sectors to increase trade and transport flow. ADB is also helping to develop procedures and technical tools to enhance land acquisition and resettlement practices to foster more effective infrastructure development in the region.

As of the end of 2011, cumulative direct value-added official cofinancing for the Kyrgyz Republic since 1997 amounted to US\$54.7 million for eight investment projects and US\$3 million for seven technical assistance projects. Currently, there is no active project with cofinancing arrangements.

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

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

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

(As of November 1, 2012)

### Overview of EBRD Activities to Date

The Bank has been actively supporting the transition in Kyrgyz Republic since 1995. From 1995 to the end of October 2012, the Bank signed 88 projects accounting for a net cumulative business volume of 415 million. During 2008–10 the Bank was signing on average 9–10 projects per year, while in 2011 it did a record of 17 transactions. The annual business volume has been steadily increasing over the last four years from €12 million in 2008 to €86 million in 2010. In 2011 despite the high number of transactions these were smaller in size resulting in the annual business volume of €66 million. The current private sector portfolio ratio (as a percentage of the total portfolio) is 77 percent which is well above the Bank's 60 percent mandated ratio. In September 2011, EBRD's Board has approved a new country strategy for the Kyrgyz Republic, which is designed to ensure continued EBRD support for the recovery of the country's economy and sustainable growth after a period of social and political unrest in the recent past. The EBRD's key priorities under the new country strategy are supporting local private enterprises, in particular through support for micro, small, and medium sized enterprises (MSMEs), alongside support to strengthen the financial sector and develop critical infrastructure.

**Fostering the Private Sector:** The Bank's operations in support of local private enterprises took advantage of the ETC Initiative, which was instrumental in enabling the Bank to deliver a number of small projects with significant transition impact, particularly in the areas of corporate governance and business conduct. Despite difficult economic and political situation in the country the Bank signed four corporate sector projects in 2011.

- Under the Direct Lending Facility (DLF), in 2011 the Bank supported two manufacturing sector operations (a local furniture producer and expansion of gas stations to the regions).
- In July 2011 the Bank has approved a new €8 million additional loan to Interglass LLC, the largest industrial glass producer in Central Asia, to complete the upgrade and modernization the plant's facilities, located at Tokmok, northern Kyrgyzstan.
- Under the Medium-Sized Co-Financing Facility (MCFF), the Bank supported one of the leading distribution companies of packaged food products and cosmetic goods. This was a modest achievement, with fewer deals under MCFF than expected coming to fruition. Following the 2010 crisis, it was particularly difficult to identify larger size investment projects that could be well supported by MCFF.

- Under operations of its Small Business Support team, the Bank facilitates the skills transfers to the local consultancy industry and improves the know-how and management of the MSME sector through its two twin programs: Enterprise Growth Programme (EGP) and Business Advisory Services (BAS). The objective of the EGP is to assist MSMEs to operate successfully and help to develop new business skills at the senior management level in order to be able to compete in a market economy. The EGP introduces industry-specific management expertise by providing the advisory services of experienced senior executives from economically developed countries. These advisers transfer management and technical know-how to enterprises, sharing their commercial experience directly with the CEOs and senior managers of local companies.
- On the other hand EBRD BAS Kyrgyz Republic enables MSMEs to access a diverse range of consulting services by facilitating projects with local consultants on a cost sharing basis. Direct assistance to enhance enterprise performance is combined with systemic market development activities to create sustainable and commercially viable infrastructures of MSME support in the Bank's countries of operations. As of the end of 2011 BAS Kyrgyz Republic had undertaken 474 projects engaging 205 consultants. Sixty percent of the enterprises assisted are located in rural areas outside the main cities. Despite the difficult business climate, turnover increased in nearly 66 percent of BAS beneficiary companies in the year following project completion, while 14 percent of beneficiaries secured external investments with an average size of €530,000. After events in 2010, BAS has undertaken a crisis response initiative to provide 90 percent subsidy to MSMEs located in Osh, Djalal-Abad and Batken oblasts. BAS also supported professional capacity building of local advisory services to serve the MSME sector on a sustainable basis and introduced more sophisticated advisory services in areas such as quality management and energy efficiency. BAS Kyrgyz Republic is co-funded by the Swiss Government.

**Strengthening Financial Institutions:** In 2011, the EBRD continued supporting the country's financial institutions. The Bank signed nine new loan agreements with local banks and MFIs in local currency, including the first ever syndicated A/B Loan with FMO participation in Kyrgyz Republic, as part of the Bank's Local Currency and Local Capital Market Initiative, a risk-sharing program supported by donor grants to catalyze local currency lending in the early transition countries (ETC). The Bank has also supported the development of Kyrgyz Investment and Credit Bank via participation in equity increase. The Bank has been actively engaged in policy dialogue on stabilizing the banking sector and strengthening deposit insurance and provided Technical Consultation (TC) to its partner financial institutions under the Kyrgyz Financial Sector Framework.

The Bank has continued moving its partners forward in area of corporate governance, through strengthening external and internal audit, improving shareholder transparency, and implementing better internal policies and procedures.

To reduce dollarization and develop local currency capital markets, the Bank conducted a local capital markets assessment mission in December 2011. It has also offered TC to the NBKR to improve the forecasting and control of inflation while improving its internal and external communication on monetary and exchange rate policy.

**Support for Critical Infrastructure:** To build the institutional framework for sustainable operations of municipal services, the Bank strengthened its activities in municipal infrastructure projects in 2011 and 2012. The Bank approved a €20 million framework to improve water supply and wastewater treatment supported by co-financing grants from bilateral and multilateral donors.

- Under this framework in May 2011, the Bank signed new water/wastewater projects for Osh and Jalalabad municipalities. The EBRD's €6 million loan to the projects is co-financed by a capital expenditure grant from SECO (Switzerland). In August 2012 the Bank signed water project for Kara-Balta having provided a sovereign loan of €2 million co-financed by a capital grant of €3 million from the EBRD Shareholder Special Fund. The capital expenditure grant is required to meet IMF conditions for nonconcessional lending and mitigate affordability constraints. Projects in the water sector enabled the Bank to make progress with water tariff reforms, meeting IFRS accounting standards, and promoting efficiency in the Bishkek water company.
- In order to support the transport infrastructure of Bishkek city the Bank provided a sovereign loan of up to €7.7 million co-financed by a capital grant from the EBRD Shareholders' Special Fund of €4.2 million to finance the purchase of new trolleybuses and partial rehabilitation of related infrastructure. In addition, this investment will provide support for the introduction of electronic ticketing in the municipally operated public transport sector in Bishkek.

**Policy Dialogue:** EBRD is continuing support to the Investment Council, which has been providing local and international business representatives (representing the mining, industry, agro-processing and tourism sectors) with a platform to discuss the main barriers to doing business with top officials of the government. Following the political events and subsequent changes in 2010, the new government acknowledged its commitment to improve the investment climate in the country and renamed the council as the Council for Business Development and Investment. The donor community expressed its readiness to continue its full support to the Council under the new government.

- The Bank continued to actively engage in policy dialogue with the government and local authorities to promote the further reform agenda in corporate and infrastructure sectors.
- The Bank strengthened its collaboration with the Kyrgyz Supreme Court with a view to increasing capacity in the judiciary dealing with commercial disputes. Since 2007, the Bank provided technical advice to the Judicial Training Centre, trained judicial trainers, delivered commercial law training seminars for up to 240 existing judges, created a law library at the Supreme Court, organized internships in the courts of Kazakhstan and Russia, and published a bench book on commercial law. The Bank expanded its assistance in 2010 to help establish a training system for candidate judges, and implement a fair and transparent judicial selection process. In 2011 under Juridical Capacity Building Project of EBRD 36 Judges have received Certificates for Successful Completion of Training for Judges who successfully passed Training Program for Applicants to the Position of Local Courts Judges of the Kyrgyz Republic.

- The Bank has offered TC to support the government's efforts to improve public procurement under the joint EBRD–UNCITRAL technical cooperation project designed to upgrade public procurement regulation in the CIS to the new UNCITRAL Model Law on Procurement of Goods, Construction, and Services.
- The Bank in providing support to the development of local capital markets through policy dialogue, TC and possible projects deepening the market and reducing bank funding mismatches.
- The Bank has supported Financial Inclusion TC project which provided support to five selected banks most active players on international money transfer market to improve financial literacy among banks' clients so that they could start saving and use bank services. The project focused on recipients of remittances, prepared 20 professional trainers for the banks who have provided training and advice to over 25,800 individual clients. Based on conservative assessment over 2,190 new bank accounts were opened.
- The Bank has prepared Terms of Reference and is advancing with TC aimed to support reforms in the mining sector initiated by the government through a three-pronged approach, providing: (a) capacity building, training, and practical implementation support to State Agency for Geology and Mineral Resources; (b) policy development, legislative drafting and training to the Ministry for Economy and Antitrust Policy (sector policymaker); and (c) institutional, communications/outreach and training support for the Kyrgyzstan Extractive Industries Transparency Initiative Secretariat.
- The Bank has been providing TC to the Deposit Insurance Agency and intends to continue assisting the Agency to improve IT, increase operating procedures effectiveness, strengthening monitoring and risk management.

## ANNEX V. KYRGYZ REPUBLIC—TECHNICAL ASSISTANCE PROVIDED BY THE FUND

February 2003–March 2012

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

	Tax Administration Diagnostic Mission (TPA TTF Module 6)	September 16–29, 2011	Ministry of Finance, State Tax Service, State Customs Service
	Unified Chart of Accounts	November 3–11, 2011	Ministry of Finance
	Public Finance Management	December 8–13, 2011	Ministry of Finance
	Tax Administration Reform	February 27–March 17, 2012	State Tax Service
	Tax Administration Enforcement (Module 6—TPA TTF)	September 14–24, 2012	Ministry of Finance, State Tax Service, State Customs Service
	Public Finance Management	September 27–October 3, 2012	Ministry of Finance
MFD/ MCM	Review of the Capital Adequacy and Dividend Arrangements for the National Bank of the Kyrgyz Republic	August 18–28, 2003	National Bank of the Kyrgyz Republic
	Review of Debt Restructuring Operation and 2003 Financial Reporting	October 28–November 10, 2003	National Bank of the Kyrgyz Republic
	Monetary Operations, Banking System Development, and Central Bank Autonomy	September 13–23, 2004	National Bank of the Kyrgyz Republic
	Review of NBKR Debt Restructuring Arrangements, Options for Deepening Financial Markets and Amendments to the NBKR Law	December 7–18, 2004	National Bank of the Kyrgyz Republic
	Payments System	January 25–February 7, 2005 April 12–25, 2005 October 18–27, 2005 February 20–March 5, 2006 October 16–27, 2006, March 3–17, 2007 December 9–15, 2007 May 19–June 3, 2008 February 23–March 11, 2009 September 22–October 9, 2009	National Bank of the Kyrgyz Republic



	Bank Supervision and Regulation	February 23–March 8, 2005 May 18–28, 2005 July 17–28, 2005 October 02–13, 2005 January 15–26, 2006 February 12–23, 2006 March 20–30, 2006	National Bank of the Kyrgyz Republic
	FSAP update	September 5–15, 2005 October 10–23, 2006	National Bank of the Kyrgyz Republic
	AML/CFT	April 19–25, 2006	National Bank of the Kyrgyz Republic
	Monetary Framework, Operations, and Liquidity Management	June 25–July 15, 2007	National Bank of the Kyrgyz Republic
	Islamic Banking Framework	February 4–12, 2008	National Bank of the Kyrgyz Republic
	Assessment of the Government Primary and Secondary Market Arrangements in the Kyrgyz Republic	May 6–16, 2008	National Bank of the Kyrgyz Republic
	Public Debt Management	July 14–31, 2009	Ministry of Finance and others
	Risk Management within the Islamic Banking Framework	July 6–15, 2009	National Bank of the Kyrgyz Republic
	Financial Stability Analysis and Stress Testing	March 10–18, 2010	National Bank of the Kyrgyz Republic
	Improving the Bank Resolution Framework	March 31–April 9, 2010	National Bank of the Kyrgyz Republic
	Bank Resolution	May 31–June 3, 2010	National Bank of the Kyrgyz Republic
	Bank Resolution	July 26–August 1, 2010	National Bank of the Kyrgyz Republic
	Bank Resolution	August 10–19, 2010	National Bank of the Kyrgyz Republic
LEG	Update of the AML/CFT Legislation (jointly with MFD)	February 5–11, 2004	National Bank of the Kyrgyz Republic

Review of Bank Legislation	March 1–4, 2004 April 26–May 6, 2004	National Bank of the Kyrgyz Republic
Review of Tax Legislation	July 27–August 5, 2004	Ministry of Finance
Assisting in drafting Tax Code	December 4–10, 2005	Prime Minister’s Office
AML/CFT Follow-up	July 2–6, 2007	National Bank of the Kyrgyz Republic
AML/CFT Follow-up	September 3–6, 2007	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
AML/CFT Framework	February 11–15, 2008 March 3–7, 2008	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
Review of the Draft Tax Code	April 22–30, 2008	Ministry of Finance
AML/CFT capacity building	March 25–31, 2009	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
AML/CFT Follow-up	May 18–29, 2009	NBKR and State Financial Intelligence Service
AML/CFT Follow-up	August 3–14, 2009	NBKR and State Financial Intelligence Service
AML/CFT follow-up	September 22–25, 2009	State Financial Intelligence Service
AML/CFT Follow-up	October 5–16, 2009	NBKR, State Financial Intelligence Service
AML/CFT Follow-up	January 27–29, 2010	State Financial Intelligence Service

	AML/CFT Follow-up	February 22–March 4, 2010	NBKR, State Financial Intelligence Service
	AML/CFT Follow-up	January 18–20, 2011	NBKR, State Financial Intelligence Service
	Legal Framework for Crisis Management and Bank Resolution	March 9–23, 2011	NBKR, MoF, Deposit Protection Agency, Debt Enterprise Bank Resolution Agency, Ministry of Foreign Affairs, Union of Banks
	Legal Frameworks for Bank Resolution	September 6–16, 2011	NBKR, Debt Enterprise Bank Resolution Agency
	AML/CFT Follow-up	October 17–21, 2011	NBKR, State Financial Intelligence Service, Public Prosecutor
	Legal Frameworks for Bank Resolution and Central Banking	March 5–15, 2012	NBKR
STA	SDDS Subscription	January 28–February 5, 2004	National Statistical Committee
	Balance of Payments Statistics	March 15–29, 2004	National Bank of the Kyrgyz Republic
	Monetary and Financial Statistics	April 27–May 11, 2004	National Bank of the Kyrgyz Republic
	National Accounts Statistics	November 17–28, 2008	National Statistics Committee
	Government Finance Statistics	November 11–14, 2008	Ministry of Finance
	National Accounts Statistics	March 1–12, 2010	National Statistics Committee
	Government Finance Statistics	February 13–24, 2012	Ministry of Finance

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**List of Resident Advisors**


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

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## ANNEX VI. KYRGYZ REPUBLIC—STATISTICAL ISSUES

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

### National accounts

4. In general, dissemination of national accounts statistics is timely. Technical assistance has been received from the IMF, EUROSTAT, OECD, the World Bank, and bilateral donors. While significant progress has been made in improving the national accounts estimation process, problems persist regarding the quality of the source data, due mainly to excessively tight collection deadlines associated with the release schedule. Efforts are needed to improve the quality of the source data for quarterly GDP estimates. Moreover, while the quarterly GDP estimates are disseminated on a discrete basis for SDDS purposes, these estimates are still derived from cumulative data. Difficulties also remain in properly estimating the degree of underreporting, especially in the private sector. To improve the coverage and reliability of primary data, work has been undertaken to introduce sampling procedures. Improved sampling procedures have been adopted for household surveys and new report forms have been introduced for the enterprise survey. The NSC has established a division of sample surveys, which would assist in improving the sampling techniques.
5. The November 2008 STA mission on national accounts assisted the staff of the National Accounts Division in NCS to produce discrete quarterly GDP estimates at current and constant prices, using both the production and expenditure approaches. The mission made a number of recommendations, including: (a) need to introduce the new establishment surveys; (b) disseminate the industrial production index (IPI) as a chain-linked indices, in line with international standards; (c) investigate the inconsistency between the IPI and the producer price index (PPI); (d) fully computerize the calculation of volume estimates for agriculture in line with international practice; and (e) obtain time series data for loans and deposits of financial institutions.

### Price and labor market statistics

6. The concepts and definitions used in the CPI, which has been published since January 1995, are broadly consistent with international standards. The price index covers all urban resident households of all sizes and income levels, but needs to cover rural households, which comprise the majority of the population.
7. The PPI, which has been published since October 1996, is compiled broadly in accordance with international standards, although its coverage needs to be improved. The coverage of the PPI was broadened in May 1997 and is expected to be further expanded in the coming years.
8. Progress has been made in computing unit value indices for imports and exports. Work continues with regard to computation of these indices using a standard index presentation and the development of an export price index. However, problems in customs administration have led to incomplete coverage of trade and the lack of an appropriate valuation system. Moreover, the data processed by customs have suffered due to the use of an outdated computer software system.
9. Problems exist in the compilation of the average wage, especially with respect to the valuation of payments in kind and the coverage of the private sector. Monthly and annual data are not comparable because of different coverage and classifications. These problems extend to employment data as well. The coverage of unemployment includes an estimate of unregistered unemployed.

### Government finance statistics

10. The scope of central government statistics falls short of international standards because it excludes data for the Social Fund (these data are published separately). Other limitations involve the discrepancies between the deficit and financing data. While revenue and expenditure data generally accord with the *GFSM 1986*, there are misclassifications in both categories (for example, some nontax revenues are classified as taxes, and certain expenditure items are misclassified in the budget and treasury accounts). Monthly GFS data are reported to STA for publication in the *IFS*; the latest data reported for publication in the *GFS Yearbook* were for 2006, and covered general government and its subsectors; and the data were compiled using the *GFSM 2001* analytical framework.
11. The provision of data on public external debt service has improved. Data on actual debt service, guaranteed debt service, outstanding debt and revised debt projections, are provided on a monthly basis. The quality (including timeliness) of external debt data is adequate. The External Debt Division of the ministry of finance is now solely responsible for monitoring external debt, and has benefited from on-site training provided by a Swiss-financed long-term consultant and the computerization of its database.

## Monetary and financial statistics (MFS)

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

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

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

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

## External sector statistics

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

## A. Kyrgyz Republic: Table of Common Indicators Required for Surveillance (As of November 2, 2012)

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

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

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



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

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

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

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

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

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

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

**Statement by the Staff Representative on the Kyrgyz Republic**  
**December 3, 2012**

1. This statement provides an update on recent developments since the issuance of the staff report. It does not alter the thrust of the staff appraisal.
2. On November 7, Centerra Gold Inc., the parent company of the Kumtor gold mining company, released lower projections for this year's gold production. If the new projections materialize, overall GDP growth would decline to 0 percent this year compared with 1 percent projected in the staff report. The revenue shortfall would be 0.1 percent of GDP. Staff has consulted with the Ministry of Finance which intends to cut non-priority expenditures to ensure that the end-December 2012 fiscal deficit target will be met.
3. On November 16, the office of the Prime Minister of the Russian Federation announced that Russia will provide a budget support grant to the Kyrgyz Republic toward the end of this year amounting to US\$25 million (0.4 percent of GDP). Under the program agreed with the authorities, the grant would be saved in the first instance, reducing the 2012 fiscal deficit while strengthening net international reserves. For 2013, these additional resources will be important in helping ensure that the government's priority expenditures can be readily financed.



Press Release No. 12/469  
FOR IMMEDIATE RELEASE  
December 3, 2012

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Completes Third Review Under an ECF Arrangement with the Kyrgyz Republic, Approves US\$14.6 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Kyrgyz Republic's economic performance under the program supported by a three-year, SDR 66.6 million (about US\$102.3 million) Extended Credit Facility arrangement that was approved by the IMF's Executive Board on June 20, 2011 (Press Release No. 11/245). The Executive Board's decision enables the immediate disbursement of an amount equivalent to SDR 9.514 million (about US\$ 14.6 million) to the Kyrgyz Republic. This would bring total disbursements under the arrangement to SDR 38.056 million (about US\$58.5 million).

In completing the review, the Board approved the authorities' request for a downward modification of the quantitative performance criteria (QPC) on the general government overall deficit target and on the net international reserves held by the National Bank of the Kyrgyz Republic (NBKR) for end-December 2012, reflecting the external financing shortfalls with the subsequent modifications in the QPC on the NBKR's net domestic assets. Moreover, in light of the successful renegotiation of the borrowing terms on the second phase of the foreign-financed energy infrastructure project, the Board approved a modification of the debt limit by introducing a zero ceiling on contracting or guaranteeing of new nonconcessional external debt by the public sector.

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

“Implementation of sound policies under the Fund-supported program has helped the Kyrgyz Republic to preserve macroeconomic stability. Growth this year has been adversely affected by the deferral of gold production to outer years. The Kyrgyz Republic also faces a number of challenges going forward, including from a potential further deterioration in the global economic environment and rising inflation due to pressures from higher food prices.”

“The authorities are committed to fiscal consolidation in the medium term to reduce vulnerabilities, rebuild fiscal policy buffers, and ensure fiscal and debt sustainability. The government will restrain current spending while preserving social and capital outlays to balance the need for macroeconomic stability with the need to increase the economy’s long-term growth potential. Reforms in tax policy and administration are expected to boost revenues, while public financial management reforms will strengthen fiscal governance and transparency.”

“The central bank will maintain a tight monetary policy stance to mitigate underlying inflationary pressures. While key banking indicators have been improving, ongoing efforts to enhance the resilience of the financial sector, including the swift resolution of Zalkar Bank, and to reduce the government footprint in the sector are critical. The authorities intend to finalize the envisaged legal reform to strengthen the bank resolution framework.”

“Good governance and sound institutions remain key to create a level play field, improve investor confidence and lay the foundation for strong private sector-led growth. The authorities remain committed to ensuring that all regulations of the State Development Bank (SDB) are consistent with international best practices and that all public resources to the SDB will be channeled through the budget.”

**Statement by Mr. Weber and Mr. Duperrut on Kyrgyz Republic  
December 3, 2012**

On behalf of our Kyrgyz authorities, we thank staff for the constructive policy discussions and support in pursuing the objectives under the Extended Credit Facility arrangement. The authorities remain strongly committed to the program. They value the financial and technical assistance provided by the Fund to strengthen medium-term economic fundamentals and advance a broad reform agenda that is also supported by the international donor community. The authorities, while thankful to the donors for their support, emphasize the importance of timely disbursement of budget support to ensure adequate budgeting. As signs of further maturity in the political transformation process, a change in government took place smoothly and rapidly in September, while local elections were held in November. The authorities will pursue their priority objectives of promoting national reconciliation, strengthening institutions and governance, and bolstering public service delivery.

**Macro-economic environment**

The economic situation turned out more challenging than expected, with low real GDP growth projected for 2012, because of a temporary sharp contraction in gold production due to circumstances beyond the control of the authorities. On the positive side, non-gold growth remains robust, thanks to substantial contributions from manufacturing, construction, trade, and tourism activities.

The authorities continue to pursue stability-oriented fiscal and monetary policies. Fiscal consolidation is on track, thanks to stronger than expected customs revenues and contained spending. The broadening of the tax base and improved tax administration have contributed to an improvement in tax collection, in particular in customs duty intake. The authorities also consider the revenue-smoothing arrangement with the main gold mining company as a welcome stabilizing measure. On the spending side, the authorities are re-allocating expenditure away from goods and services towards poverty reduction programs. The authorities recognize the importance of realistic budgeting as a way to improve the credibility of the budget as well as fiscal discipline. Monetary policy is kept tight, allowing inflation to remain in single digits, with some monthly volatility due to significant changes in food and fuel prices. With the exchange rate stable, the National Bank has kept its interventions to the very minimum. Foreign reserves continue to be built up. Finally, the authorities remain committed to further improve the business climate, in particular for small and medium enterprises, and to provide a level playing field for private investors. The recent changes to the anti-corruption and privatization laws testify to this commitment.

The financial sector has strengthened since the last review. Credit growth to the private sector continues to be strong, while non-performing loans are declining. On the resolution of

problem banks, the auction date for Zalkar Bank has been announced and a new sales strategy for the Savings and Settlement Company will be proposed in the coming months. The law on the State Development Bank has been passed and the authorities remain committed to continue cooperating with the Fund and the World Bank to ensure that the development bank's regulations are consistent with international best practices of good governance and transparency. The planned Financial Sector Assessment Program (FSAP) mission scheduled for the second half of 2013 will provide a comprehensive picture of the strengths and weaknesses of the financial sector.

Looking at 2013, the authorities concur with staff that real GDP growth should rebound strongly. This growth will be broad based, with important contributions from infrastructure and energy projects. Even at this high growth rate, the current account deficit should come down due to higher gold exports. Inflation should stabilize and foreign exchange reserves are bound to increase further. The National Bank will stay vigilant and ready to act to ensure that inflationary expectations remain well anchored. The authorities generally concur with staff's risk assessment around this outlook and are confident that they have the capacity to respond, if need be, should any downsides materialize.

The authorities have already presented the draft 2013 budget to Parliament, corresponding to the program. The authorities aim to continue with the gradual reduction of the overall fiscal deficit, following a slightly more ambitious fiscal consolidation path than the one presented at the time of the last review. The focus will be on the expenditure side, with cuts to spending on goods and services, as well as a further re-allocation of spending towards poverty reduction programs. The authorities see some room to lower specific tax rates, but have agreed to consult with Fund staff to ensure that the adopted changes are consistent with the program. At the same time, the authorities will press ahead with reforms of the public financial management framework.

### **Program performance**

All the end-June 2012 program performance criteria have been met, in most cases by comfortable margins. All indicative targets and all but one structural benchmark were also fulfilled. The authorities have requested an extension of the deadline from end-September to end-December 2012 for submission to Parliament of the laws and regulations strengthening the framework for anti-money laundering and combating the financing of terrorism. These amendments should ensure that the Kyrgyz Republic is compliant with FATF standards.

The authorities continue to see the Fund arrangement as an effective policy framework in support of strengthening medium-term economic stability and advancing structural reforms. They consider staff's recommendations, including on the need to rebuild fiscal buffers, to promote inclusive growth, and to enhance governance, as constructive and helpful. In order to allow for legislation to fully account for staff's advice and technical assistance, the Kyrgyz authorities request to re-phase the submission of the Banking Code to the government to end-

April 2013 and to parliament to end-September 2013. In light of the increase of the concessionality level of the second phase of the energy infrastructure project, they also request to modify to zero the quantitative performance criterion on contracting or guaranteeing new non-concessional external debt by the public sector. The other requests for modifications refer to the quantitative performance criteria on net international reserves, net domestic assets, and the general government overall deficit target, reflecting mostly the impact of external financing shortfalls.

Finally, the authorities welcome the updated debt sustainability assessment, showing that the debt outlook has improved and remains sustainable over the medium-term, barring the most extreme shock. The stock of debt will gradually be reduced thanks to recent bilateral agreements with Russia and Turkey. The authorities also successfully managed to raise the concessionality level of the energy infrastructure project, as mentioned. The extension of the financial reporting requirements to the 20 largest state-owned enterprises will further contribute to reducing potential fiscal costs (while also helping to raise revenue). Finally, the authorities are updating their medium-term debt management strategy to enhance the effectiveness of the domestic debt market.