INTERNATIONAL MONETARY FUND

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KYRGYZ REPUBLIC

February 2016

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE KYRGYZ REPUBLIC

In the context of the Article IV and first 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:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its December 4, 2015 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 4, 2015, following discussions that ended on September 29, 2015, with the officials of the Kyrgyz Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 18, 2015.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Kyrgyz Republic.

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

Letter of Intent sent to the IMF by the authorities of the Kyrgyz Republic*
Technical Memorandum of Understanding*
Selected Issues
*Also included in Staff Report

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

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December 7, 2015

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Washington, D. C. 20431 USA

IMF Executive Board Completes the First Review Under the Extended Credit Facility Arrangement for the Kyrgyz Republic and Approves US$13.2 Million Disbursement

On December 4, 2015, the Executive Board of the International Monetary Fund (IMF) completed the first review of the Kyrgyz Republic's economic performance under the three-year arrangement under the Extended Credit Facility (ECF). The Board's approval enables the immediate disbursement of SDR 9.5 million (about US$13.2 million). This would bring total disbursements under the arrangement to SDR 19 million (about US$26.4 million). The extended arrangement for SDR 66.6 million (then about US$92.4 million) was approved on April 8, 2015 (see Press Release No. 15/165).

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

"The Kyrgyz authorities have managed successfully to keep the program largely on track despite that the economy continues to face adverse external and domestic shocks. The economic slowdown, currency depreciations in the region, and falling gold prices and remittances have reduced economic growth, worsened external and fiscal balances, and weakened debt sustainability. Budgetary slippages linked to the October elections have also weakened the fiscal situation.

"The authorities' commitment to resume fiscal consolidation starting in 2016 is welcome, and will help rebuild buffers and keep debt on a sustainable path. Tax revenues are expected to increase supported by a set of new measures aimed at expanding the tax base and strengthening tax administration. Current expenditures should decline as spending on goods and services and other nonpriority outlays will be streamlined. Additionally, the public investment program will be rephased and prioritized.

"Monetary policy will remain on a tightening bias to contain inflation pressures. The central bank will also continue to pursue a flexible exchange rate policy to safeguard foreign exchange reserves and preserve competitiveness, with interventions limited to smoothing short-term fluctuations.

“Maintaining a healthy banking sector is critical in the current environment. Banking supervision will be strengthened, and the banking law needs to be enacted as a matter of priority to strengthen the independence of the central bank and ensure a robust bank resolution mechanism.”

Kyrgyz Republic: Selected Social and Economic Indicators, 2014–20

	2014	2015	2016	2017	2018	2019	2020
	Act.	Projections					
Nominal GDP (in billions of soms)	397.3	434.2	487.3	537.3	600.6	662.9	730.8
Real GDP (growth in percent)	3.6	2.4	3.6	3.1	5.3	5.2	6.0
Nongold real GDP (growth in percent)	4.6	3.4	3.2	4.0	4.5	5.0	5.5
Consumer prices (12-month percent change, eop)	10.5	7.6	7.0	6.5	5.9	5.4	5.1
Consumer prices (12-month percent change, average)	7.5	7.4	8.9	6.9	6.1	5.7	5.3
General government finances (in percent of GDP) 1/							
Revenue	35.9	37.4	35.7	35.4	35.3	35.5	35.3
Of which: Tax revenue	20.8	20.0	22.0	22.3	22.5	22.7	22.9
Expense	30.3	31.4	29.8	28.3	27.1	26.6	26.3
Gross operating balance	5.6	5.9	5.9	7.1	8.2	8.8	9.0
Net acquisition of nonfinancial assets	5.8	9.5	10.4	8.4	6.7	7.4	7.7
Overall balance(net lending/borrowing)	-0.2	-3.5	-4.5	-1.3	1.5	1.4	1.3
Overall balance including onlending	-3.9	-5.4	-9.1	-4.1	-1.1	0.6	1.3
Total public debt 2/	53.0	64.9	66.9	67.6	66.1	64.9	63.8
Banking sector							
Reserve money (percent change, eop)	-11.9	7.2	7.9	7.7	6.7	6.6	6.3
Broad money (percent change, eop)	3.0	11.0	13.3	12.8	12.5	11.9	11.7
Credit to private sector (percent change, eop)	43.6	18.5	17.2	14.0	15.2	13.8	11.9
Credit to private sector (in percent of GDP)	20.7	22.4	23.4	24.2	25.0	25.7	26.1
External sector							
Current account balance (in percent of GDP)	-16.8	-16.0	-17.3	-14.9	-14.1	-13.1	-11.4
Export growth (percent change)	-13.5	-15.8	5.8	2.7	7.3	7.3	9.5
Import growth (percent change)	-3.0	-18.8	8.2	4.9	6.7	2.7	4.0
Gross International reserves (in millions of U.S. dollars)	1,856	1,770	1,586	1,776	1,887	2,044	2,383
Gross reserves (months of next year imports, eop)	4.2	3.7	3.2	3.3	3.4	3.6	4.0
External public debt outstanding (in percent of GDP)	51.0	63.0	65.3	66.1	64.7	63.6	62.7

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

2/ Calculated at end-period exchange rates.

INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

November 18, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

KEY ISSUES

Context. The economy has shown some resilience in the face of adverse regional shocks but potential growth is constrained by persistent structural challenges, particularly lagging productivity and dependence on gold, remittances, and foreign aid. Satisfactory performance under the program during the first half of the year was followed by fiscal slippages in the run-up to the October elections and a delay in adopting the Banking Code, a key measure to strengthen central bank independence and the bank resolution framework. The combined impact of a large public investment program and currency depreciation has raised the public debt ratio markedly. Significant further depreciation could pose risks for the otherwise well capitalized, but highly dollarized, financial sector. The business environment remains weak, overshadowed by lingering disagreements between the authorities and the largest foreign investor.

Article IV discussions. Since the last 2013 Article IV consultation, counter-cyclical fiscal and monetary measures and a relatively flexible exchange rate regime helped mitigate some of the impact of the external shocks on the economy. Discussions focused on policy reforms needed to: improve resilience and increase medium-term growth potential and inclusiveness; rebuild fiscal buffers; strengthen the financial sector to make it an engine of growth; and improve the business climate. This would require: (i) a credible medium-term fiscal strategy that would maintain debt at sustainable levels; (ii) continued exchange rate flexibility to help the economy absorb external shocks; (iii) bolstering financial sector resilience to limit adverse spillovers back to the real sector; and (iv) bold structural reforms to ensure inclusive growth and reduced inequality.

Program discussions. The program is broadly on track. All end-June quantitative performance criteria (QPCs) and indicative targets (ITs) were met. All but two structural benchmarks (SBs) were met. The authorities are committed to resuming fiscal consolidation in 2016, to offset the 2015 fiscal slippages and to keep debt on a sustainable path. Furthermore, they agreed to implement a set of compensatory measures to ensure the stability of the financial sector until the banking law is passed. The authorities are requesting the modification of performance criteria and that the second disbursement (SDR 9.514 million) is available upon completion of this review.

Approved By
Juha Kähkönen (MCD) and Masato Miyazaki (SPR)

Discussions were held in Bishkek during September 16–29 with Vice-Prime Minister Dil, Minister of Finance Kasymaliev, Chairman of the National Bank Abdygulov, other senior officials, representatives of the private sector, civil society, and the diplomatic community. The staff team comprised Mr. Gemayel (head), Ms. Gicquel, Ms. Ostojic, Mr. Said, Mr. Yoon (MCD), Ms. Kadyrberdieva and Ms. Shambetova (both local economists). Ms. Lagveshkina and Mr. Surin assisted with interpretation and translation services. Mr. Gueye provided research assistance, Mmes. Stone and Zolas (both MCD) helped prepare the report.

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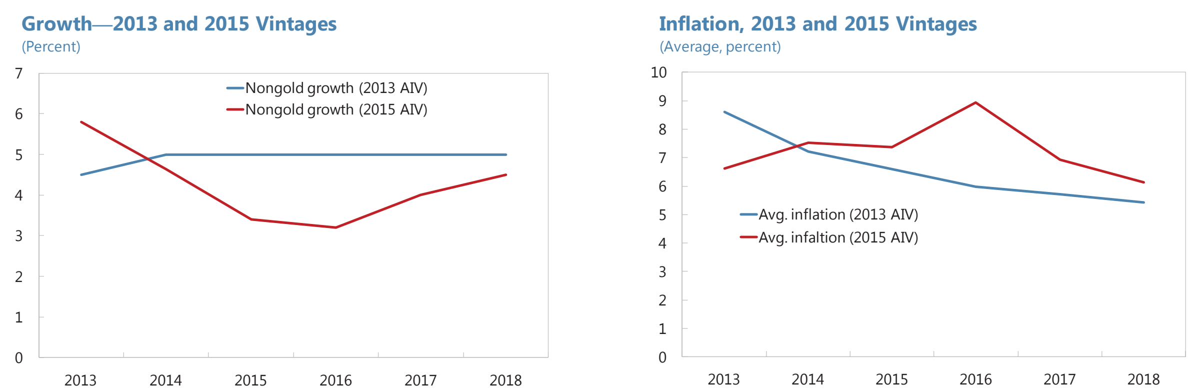
CONTEXT

1. **Despite significant reform efforts over the past two decades, persistent structural weaknesses limit potential growth.** Dependence on gold, remittances, and foreign aid leaves the economy vulnerable to external shocks and makes it difficult to generate broad-based prosperity. As productivity lags, growth continues to rely on large-scale capital spending and an abundant supply of labor. The link between credit expansion and economic growth is weak as the financial sector is still underdeveloped. Despite progress in improving infrastructure and energy reliability, significant gaps remain. Poverty is high, with large differences in development across regions. Still nascent institutions, frequent changes in government, and a challenging business environment further hamper economic development.

2. **Since the last Article IV consultation in 2013, economic performance has suffered owing to a series of external shocks.** After picking up in 2013, nongold growth decelerated markedly in 2014–15. The economic slowdown and currency devaluations in the region (especially Russia), falling gold prices and remittances, and uncertainties and delays surrounding accession to the Eurasian Economic Union (EEU) worsened external and fiscal balances and dampened domestic demand. The som depreciated in response to the worsening external balance and increased uncertainty, losing almost half of its value against the dollar between June 2013 and October 2015. Inflation inched up, due mainly to som depreciation. Fiscal buffers were reduced by countercyclical fiscal policies and a large foreign-financed public investment program. Foreign reserves declined somewhat due to foreign exchange interventions by the National Bank of the Kyrgyz Republic (NBKR). The financial sector is stable but in the context of high dollarization vulnerable to further significant currency depreciation and a slowdown in economic activity.

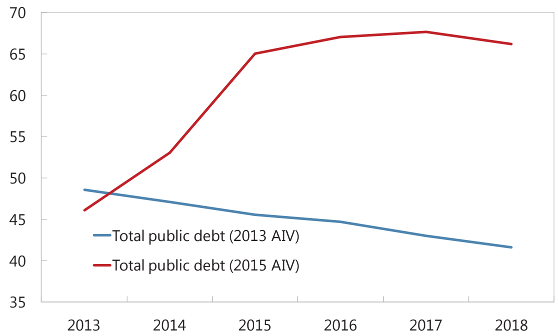
Performance Since 2013 Article IV Consultations



Sources: Authorities data and IMF staff projections.

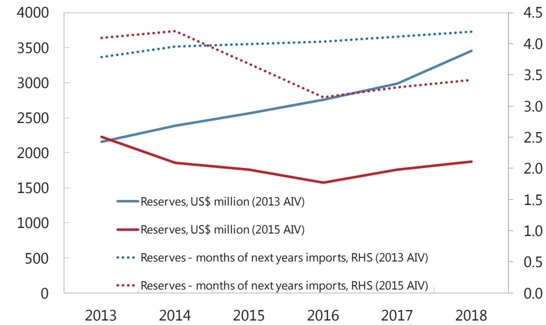
Sources: Authorities data and IMF staff projections.

Public Debt—2013 and 2015 Vintages
(Percent of GDP)



Sources: Authorities data and IMF staff projections.

Gross International Reserves, 2013 and 2015 vintages
(In millions of US dollars and months of next year imports)



Sources: Authorities data and IMF staff calculations.

3. **Large-scale foreign-financed public investment in combination with sharp currency depreciation is weakening debt sustainability.** The country remains at a moderate risk of debt distress, but planned infrastructure investments in excess of 20 percent of GDP over the next three years and the 16 percent depreciation of the national currency so far this year have raised public debt by 6 percentage points of GDP, bringing it close to the high risk of debt distress level. While infrastructure gaps remain large, investment at such a scale raises concerns over efficiency and absorptive capacity. Debt risks are exacerbated by stagnating revenues and elevated spending on wages, subsidies, and goods and services.

4. **Despite strong credit growth over the past three years, financial sector remains underdeveloped and is subject to vulnerabilities.** While financial inclusion improved, banks' penetration in remote areas is still narrow. The limited array of financial products and instruments reduces the opportunity for domestically-financed investments. Moreover, the system is still largely cash based, and highly dollarized. A further decline in economic activity coupled with significant currency depreciation could raise both direct balance sheet risks and indirect credit risks by undermining borrowers' creditworthiness.

5. **Structural reforms to make the economy more competitive are necessary to maximize the benefits from accession to the EEU.** The Kyrgyz Republic became a member of the EEU in August 2015. The country will receive 1.9 percent of the common customs pool, which should result in an increase in customs revenues of about 1.5 percentage points of GDP annually. Beyond higher customs revenue, expected benefits from EEU membership stem from improved access to a large market for goods, services, and labor. Structural reforms aimed at raising productivity and diversifying the economy are necessary for the full benefits of integration to be captured (SIP "Impact of the accession to the EEU").

6. **Implementation of past Fund policy advice has been mixed.** Several of the 2013 Article IV consultation recommendations were implemented, with policy traction particularly in the monetary area. The authorities have also been implementing key recommendations from the 2013 FSAP Update (Annex II), and there has been close cooperation through Fund technical

assistance. However, fiscal policy has been looser than recommended, public debt has increased sharply, and further progress is needed in the financial sector (Annex I).

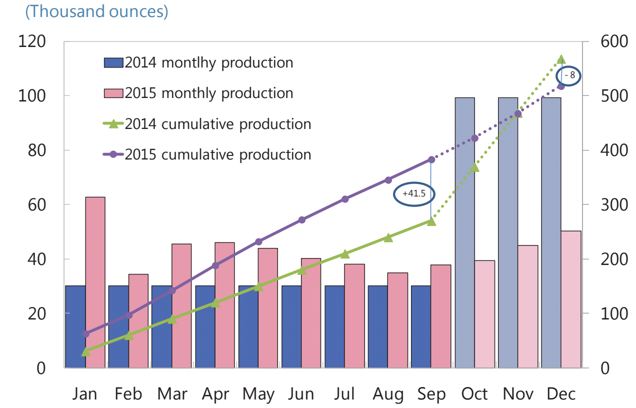
7. **The current Extended Credit Facility (ECF) arrangement, approved last April by the Board, is in line with the authorities' 2013–17 National Strategy for Sustainable Development.** It focuses on generating inclusive growth through reducing macroeconomic vulnerabilities, achieving fiscal sustainability, supporting banking sector reforms, strengthening debt management, and encouraging structural reforms to expand the economy's potential. Achieving these objectives requires fiscal consolidation, and prioritization of public investment to maintain debt at sustainable level. In addition, continuing to ensure greater exchange rate flexibility is needed to preserve the economy's competitiveness. Also, strengthening the resilience of the banking sector by stepping up supervision and adopting the Banking Law will be critical. Speeding up PFM and AML/CFT reforms will be important to improve the business environment.

8. **Political uncertainty could weaken the reform momentum.** Following the parliamentary elections in October, a new four-party government was formed, with Prime Minister Sariev retaining his post. With local and presidential elections scheduled for 2016 and 2017, respectively, a slowdown in the reform momentum could further weaken economic prospects.

RECENT ECONOMIC DEVELOPMENTS

9. **Real GDP growth was robust over the first nine months, notwithstanding adverse external shocks.** Evenly distributed gold production throughout 2015 as opposed to back-loaded production in 2014 resulted in a surge of gold output by 41.5 percent year-on-year. Domestic demand, sustained by public investment, helped support growth despite a string of adverse shocks including falling remittances, the knock on effects of the ruble and tenge depreciation and the uncertainty surrounding EEU accession. Consequently, nongold GDP grew by 4.3 percent on account of a strong performance in the agricultural, transport, public construction, and manufacturing sectors.

Gold Production
(Thousand ounces)



Source: Centerra gold.

10. **Inflation through end-September was moderate.** After an initial spike due to the som depreciation in the first quarter of the year, inflation subsided to 6.4 percent by end-September, as a result of a decline in food prices. However, core inflation remains high at 8.6 percent, driven by the pass-through effect from som depreciation.

11. **Fiscal performance for the first nine months of the year was better than expected.** The overall fiscal deficit reached 0.2 percent of GDP compared to 5 percent under the program, as a result of the postponement of the bulk of the goods and services to the last quarter, and delays in parliamentary ratification of some PIPs (charts below). Revenues excluding grants exceeded projections by 2.9 percentage points of GDP, mainly due to the sale of a mining license (1.4 percentage points of GDP) and NBKR dividends (1.2 percentage points of GDP). Government expenditures were lower (3.6 percentage points of GDP), mainly due to underspending on goods and services and delays in the public investment program (PIP) implementation. As a result of the latter, external debt was lower than projected.

Seasonality of Spending

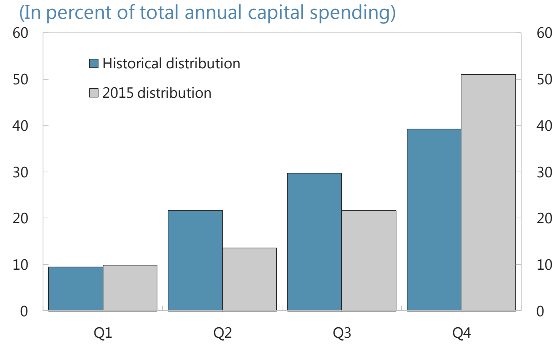
Goods and Services

(In percent of total annual spending on goods and services)

Sources: Auhthorities data and IMF staff calculations.

Capital Spending

(In percent of total annual capital spending)

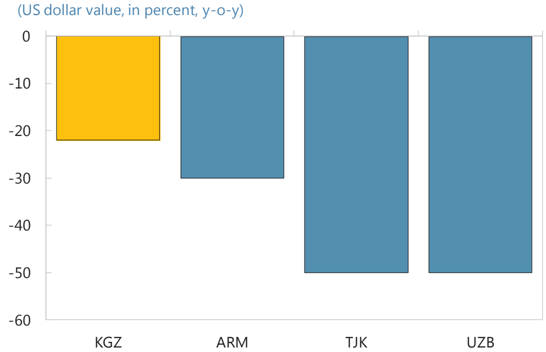


Sources: Authorities data and IMF staff calculations.

12. **The external position deteriorated largely due to the slowdown among major trading partners and falling gold prices.** The real effective exchange rate appreciated over the past year, reflecting the ruble and tenge depreciation as well as the sharp appreciation of the U.S. dollar. Slowing external demand and delays in PIP execution resulted in nongold exports and imports dropping by 26 percent and 17 percent year-on-year, respectively over the first seven months. End-September remittances fell by 28 percent year-on-year.

Decline in Remittances from Russia

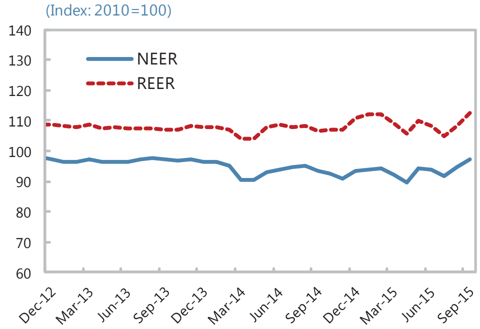
(US dollar value, in percent, y-o-y)



Sources: Authorities data and staff calculations.

Exchange Rates Developments

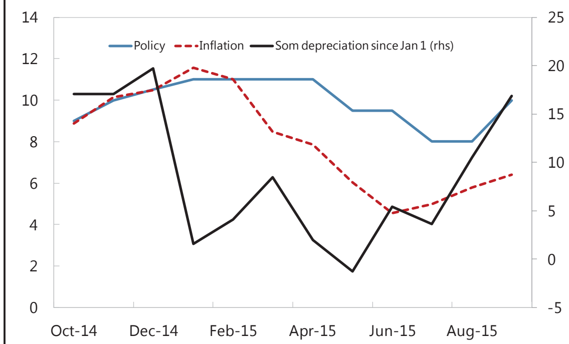
(Index: 2010=100)



Sources: Authorities data and IMF staff calculations.

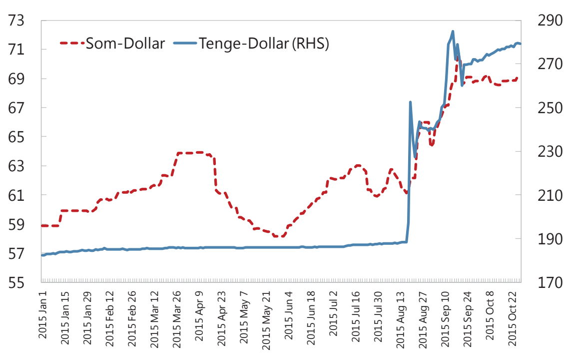
13. The NBKR adjusted its policy stance in line with market conditions to keep inflation at bay. As inflation moderated and pressures on the exchange rate subsided, the NBKR cut its policy rate by 150 basis points to 9.5 percent in May and further down to 8 percent in June. Rising exchange rate pressures following the liberalization of the tenge prompted the NBKR to raise its policy rate to 10 percent in September. The NBKR allowed the exchange rate to adjust to external shocks with the som depreciating by 16 percent against the dollar during the first nine months. Interventions limited to smoothing out excessive fluctuation reached US$170 million and had a tightening effect with reserve money shrinking by 4.3 percent year-on-year, while broad money increasing by 10 percent.

Policy Rate, Inflation and Depreciation
(In percent)



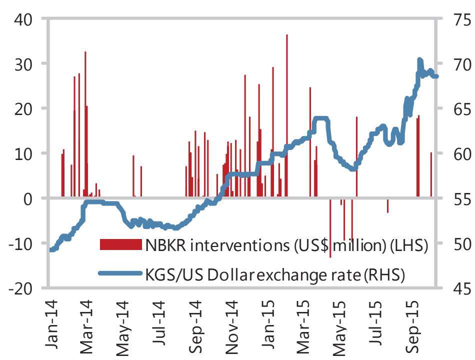
Source: NBKR data.

Daily Exchange Rates



Source: Bloomberg.

Foreign Exchange Market, 2014–15



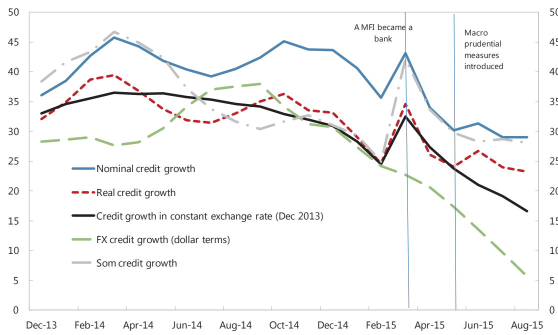
Sources: Authorities data and IMF staff calculations.

14. The banking sector is well capitalized and generally sound, but slowing lending activity, growing dollarization and an up-tick in NPL's and restructured loans raise concerns (Table 8). Banks' average capital adequacy stood at 21.5 percent, well above the 12 percent minimum requirement, following the implementation by all banks of the NBKR mandated capital increase in July (SB). Excluding FINCA—a large microfinance institution which obtained a banking license in March—credit to the private sector grew by 18.8 percent as of September (year-on-year). Loan dollarization dropped to 53 percent, driven by the som volatility and the recently introduced macro-prudential measures. On the other hand, deposit dollarization rose to 67 percent. Nonperforming loans (NPLs) and restructured loans[1] increased, mostly driven by the deterioration in the quality of foreign currency denominated loans to the construction sector. The effects of the

[1] Loans for which terms have been changed—to be paid over a longer period and with a lower installment amount.

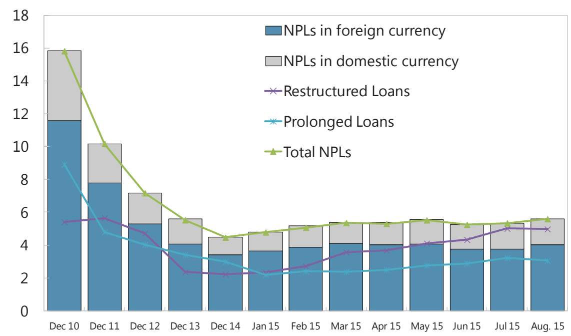
tenge liberalization on the banking sector are not yet evident, except for a 3 percentage points increase in deposit dollarization.

Credit Growth
(In percent; y-o-y)



Sources: NBKR data and IMF staff calculations.

Nonperforming, Restructured and Total Loans
(In percent of total)



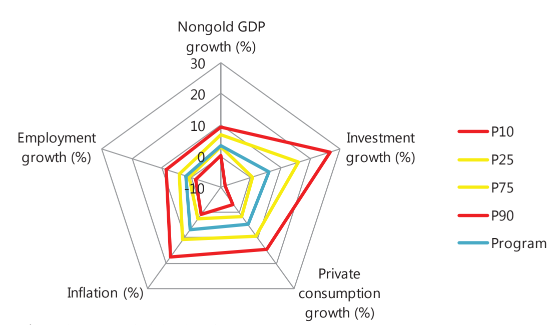
Source: NBKR data.

15. **The Russia-Kyrgyz Development Fund (RKDF) commenced operations with an on-lending arrangement through two state-owned banks.** The RKDF was setup as an international organization with a statutory capital of US$500 million; it has so far received US$300 million from Russia. The remaining balance should be received in 2016. The RKDF's activities will be exempt from taxes and customs duties. Rather than directly lending to a large number of SMEs, the fund recently entered into a US$20 million onlending arrangement with two large state-owned banks. The RKDF is also considering a number of larger projects for direct lending.

OUTLOOK AND RISKS

16. **The near-term outlook remains weak, but if appropriate policies are implemented, the medium-term prospects should improve.** Growth in 2015 is expected to reach 2.5 percent due to lower gold production and weaker external demand. It should gradually recover starting 2016, assuming no further deterioration among trading partners and an increase in gold production from new and existing concessions. Growth, however, will not reach its potential, estimated at about 5 percent, before 2018 (Text Table 1). The rebound in nongold activity will continue to be supported by an expected expansion in credit to the private sector of about 15 percent per annum—gradually boosting the credit-to-GDP ratio to about 26 percent in 2020. This pace is consistent with macro-outcomes, as per the IMF macro-consistency check tool (text chart). Inflation should moderate this year, and continue on a downward path thereafter helped by low

Distribution of Macro-Outcomes, 2016



* P indicates probability level
Source: IMF macro-consistency check tool.

food and fuel prices and prudent monetary policy. Over the medium term, the fiscal deficit is expected to gradually decline as a result of consolidation efforts. The current account deficit is also expected to narrow as remittances recover and public investment moderates. Despite under-execution of PIPs, public debt will surge over the medium term driven mainly by a weaker som, but then should gradually decline.

17. **Risks are tilted to the downside.** Key near-term risks continue to stem from developments in Russia, Kazakhstan, and China, and gold prices. Additional investment projects or a large som depreciation could tilt debt into a high risk of distress. Protracted discussions between the government and the gold company Centerra on the Kumtor mine are making the business environment more uncertain. If the dispute remains unresolved, gold production could fall by 20 percent starting 2017. The combination of rapid credit growth, high dollarization, and further significant som deprecation, could undermine the financial sector health. Expansionary policies in the run-up to the 2016 and 2017 elections would weaken the reform momentum. Upside risks include the strengthening of economic ties with China (despite China's gradual economic slowdown), benefits from EEU accession and investments supported by the newly established Russia-Kyrgyz Development Fund (Annex III, RAM).

18. **The authorities broadly agreed with staff's views on the outlook and risks.** Their near-term growth projections are more optimistic but they converge with staff forecast for outer years. Their outlook is based on a more favorable assessment of regional economic dynamics and the growth-enhancing potential of the ongoing public investment program. While acknowledging that their debt position has recently deteriorated, they nevertheless highlighted their need for closing the existing infrastructure gap, and stressed that the growth dividends from these investments will help bring down debt to more sustainable levels. They also shared staff's views on the risks facing the financial sector.

Text Table 1. Medium-Term Outlook

	2013	2014	2015	2016	2017	2018	2019	2020
			projections					
			Percentage change					
Real GDP	10.5	3.6	2.4	3.6	3.1	5.3	5.2	6.0
Nongold real GDP	5.8	4.6	3.4	3.2	4.0	4.5	5.0	5.5
Inflation (eop, y-o-y)	4.0	10.5	7.6	7.0	6.5	5.9	5.4	5.1
			Percent of GDP unless otherwise indicated					
Gross investment	26.1	27.0	28.7	31.0	29.3	27.6	25.5	24.8
Gross savings	-8.0	-11.0	-6.5	-6.8	-6.5	-7.4	-5.7	-3.7
Overall fiscal balance	-3.7	-0.2	-3.5	-4.5	-1.3	1.5	1.4	1.3
Tax revenues	20.5	20.8	20.0	22.0	22.3	22.5	22.7	22.9
Expenses	31.1	30.3	31.4	29.8	28.3	27.1	26.6	26.3
Wage billl	8.9	8.9	9.3	9.7	8.6	8.0	7.8	7.6
Current account balance	-15.0	-16.8	-16.0	-17.3	-14.9	-14.1	-13.1	-11.4
External public debt outstanding	43.0	46.5	57.5	64.6	65.4	64.1	63.0	62.1
Gross reserves (months of next year imports, eop)	4.1	4.2	3.7	3.1	3.3	3.4	3.6	4.0
Reserve money growth (12-month change, in percent)	13.4	-11.9	7.2	7.9	7.7	6.7	6.6	6.3

Sources: Kyrgyz authorities and IMF staff calculations.

PROGRAM ISSUES

19. Despite the mixed economic picture, program conditionality has so far been broadly met. All end-June PCs and ITs were met and all SBs but two were met (Table 12). The amendments to the tax code were submitted in August, instead of June. The Ministry of Finance (MoF) developed a medium-term debt strategy (MTDS) and the State Tax Service (STS) was reorganized. The NBKR issued in March the decision to unify the capital requirements in three stages, and all banks have met the first step. The NBKR submitted amendments to the administrative responsibility code to increase penalties for illegal foreign exchange bureau operations, but they were rejected by parliament last June. The audit of Debt Resolution Agency (DEBRA) was not finalized on time, but the authorities are making good progress toward this and the remaining SBs. The safeguard assessment of the NBKR was completed in October. Parliament passed the first reading of the Banking Code in June, but downgraded it to a law. Given that parliament did not reconvene in September ahead of the October elections, the new parliament will, at its discretion, either continue with the second and third readings or restart the process.

A. Resuming fiscal consolidation is critical…

The program fiscal strategy based on resuming consolidation in 2016, following a pause in 2015, remains valid. However, due to election-related fiscal slippages and a spike in external debt, additional but more evenly phased consolidation efforts are needed over the next three years. The authorities remain committed to the consolidation effort envisaged under the program to meet the 2016 targets as well as the medium-term adjustment path.

20. Due to unbudgeted election-related spending, mostly taking effect in the last quarter, the fiscal deficit is expected to widen this year. The overall deficit is expected to reach 3.5 percent of GDP compared to 2.5 percent under the program. The increase is the result of pre-election spending and commitments made in the run-up to the October parliamentary elections, mainly a large increase in teachers' wages (with an annual cost of 1.4 percent of GDP), election-related spending including biometric equipment, and school infrastructure. The authorities had argued initially for a deficit of 4.5 percent of GDP, but agreed with staff to contain some nonpriority expenditures, especially on goods and services, to reduce their deficit target by one percentage point of GDP. The deficit will be financed primarily from concessional PIP borrowing and program grants.

21. Revenues are expected to exceed projections. Tax revenues, are expected to under-perform by 0.8 percentage points due to three factors: (i) a larger than expected drop in imports (-18.8 percent); (ii) a shift of VAT collection, following EEU accession, from the customs services where VAT is paid at the borders, to the state tax services (STS) where the VAT is paid on the basis of self assessment after the goods have entered the country; and (iii) a three-month delay in EEU accession, August instead of May. Nontax revenues will, however, perform better than expected by 3.4 percentage points of GDP, mainly due to the sale of the Geroi mine license and higher NBKR profits.

22. **Expenditures on the other hand are expected to exceed the program target by 1.9 percentage points of GDP.** Current expenditures will exceed the end-year target (+1.7 percentage point of GDP), driven by a higher wage bill due to the increase in teachers' salaries and unbudgeted spending commitments on goods and services. The latter will be contained at about 8.5 percent of GDP instead of 9.3 percent as originally planned. Domestically-financed capital expenditures, driven by electoral promises, are also expected to contribute to the spending excess (+1.6 percentage point of GDP). On the other hand, foreign-financed capital expenditures are expected to under-perform (-1.4 percentage points of GDP) due to the authorities' decision to delay some of the PIPs.

Text Table 2. General Government Finances, 2015–16

(Percent of GDP)

	2015			2016		
	Staff recomm.	Authorities' projections	ECF request	Staff recomm.	Authorities' projections	ECF request
Revenue	37.4	35.2	35.0	35.7	33.3	33.8
Taxes	20.0	20.2	20.8	22.0	22.1	21.1
Social contributions	5.4	5.4	5.2	5.2	5.2	4.8
Grants	4.3	2.0	4.7	3.8	2.4	3.3
Other revenue	7.7	7.6	4.3	4.8	3.6	4.6
Expense	31.4	32.2	29.7	29.8	30.2	28.0
Compensation of employees	9.3	9.2	8.5	9.7	9.6	8.2
Purchases/use of goods and services	8.5	9.3	7.7	7.4	7.7	7.3
Interest	1.0	1.0	0.9	1.0	1.1	0.8
Subsidies	0.8	0.8	0.7	0.8	0.8	0.7
Grants	0.6	0.6	0.6	0.2	0.2	0.2
Social benefits	11.3	11.3	11.4	10.7	10.7	10.8
Gross operating balance	6.0	3.0	5.3	5.9	3.1	5.9
Net acquisition of nonfinancial assets	9.5	7.4	9.3	10.4	8.5	10.0
Acquisition of nonfinancial assets	9.5	7.4	9.3	10.4	8.5	10.1
Domestically financed	4.0	4.0	2.4	2.9	2.9	1.9
Foreign financed	5.5	3.4	6.9	7.5	5.7	8.2
Disposals of nonfinancial assets	0.0	0.0	0.0	0.0	0.0	0.0
Net lending/borrowing	-3.5	-4.5	-4.1	-4.5	-5.5	-4.2
Memorandum items:						
Nominal GDP (in billions of soms)	434.2	434.2	444.8	487.3	487.3	496.5

Sources: Kyrgyz authorities and IMF staff estimates and projections.

23. **Fiscal consolidation should resume in 2016, underpinned by strong ownership.** The authorities' 2016 draft budget submitted to parliament is expansionary with a deficit of 5.5 percent of GDP, driven by the large PIP program initiated in 2014. Nevertheless, given the recent spike in debt, they agreed with staff to revisit it with the intention of targeting a deficit of 4.5 percent of

GDP, which includes an adjustment equivalent to 1.6 percentage points of GDP—0.3 percentage points of GDP on the revenue side and 1.3 percentage points on the expenditure side. As a result, the primary balance (excluding foreign financed PIPs) is expected to improve from 3 percent of GDP in 2015 to 4 percent of GDP in 2016. Moreover, tax revenues are expected to substantially increase, largely driven by higher customs revenue following EEU accession. In this context, any future windfall or revenue over-performance would present an opportunity to consider accelerating consolidation. Despite a small increase in the wage bill, current expenditures will drop as a result of a reduction in goods and services and the streamlining of social benefits through better targeting.

24. To meet their 2016 fiscal target, staff and the authorities agreed on the following set of measures:

- On the revenue side: (i) strengthening the VAT administration and streamlining exemptions; (ii) refraining from extending expiring exemptions or granting new ones; (iii) raising excise tax rates on alcohol and tobacco products; (iv) introducing stamps for domestically produced goods; and (v) introducing luxury tax for large real estate. These measures could yield an additional 1.5 percentage point of GDP (LOI, ¶13).

- On the expenditure side: (i) refraining from ad hoc wage increases and preparing, with the help of IMF TA, an action plan to gradually reduce the wage bill to about 8 percent of GDP by 2018; (ii) streamlining goods and services and maintaining them to their 2015 nominal level; (iii) undertaking a review of subsidies with the objective of streamlining them and improving their targeting; (iv) reviewing electricity tariffs to ensure the sustainability of the sector; (v) improving the targeting of social benefits to avoid duplication; and (vi) keeping domestically financed capital spending below 3 percent of GDP.

25. Tax administration will be strengthened through a restructuring of functions towards improving efficiency. The STS, which proved to be the most efficient collecting agency, was tasked with additional responsibilities to improve tax administration. The STS, which was tasked with VAT collection on imports following EEU accession, will also undertake a pilot test in two districts to collect social contributions. If successful, the STS will retain permanently the collection of these contributions by the end of 2016 (LOI, ¶15).

26. To ensure that debt will return to sustainable levels, fiscal consolidation should continue during 2017–18. To offset the 2015 fiscal slippages and address the weaker debt outlook, staff and the authorities agreed on a realistic, but overall more aggressive, consolidation path than the one envisaged at the time of the program request totaling 3 percentage points of GDP in 2017–18. Tax revenues will be expected to increase by 0.5 percentage point of GDP, as a result of the authorities' efforts to widen the tax base, especially through streamlining tax exemptions. Expenditure will be marked by a reduction of the wage bill by about 1.5 percentage points of GDP and continued streamlining of goods and services. Medium-term consolidation measures should be underpinned by structural reforms, which will be monitored through SBs.

Text Table 3. Consolidation Efforts

	2016	2017	2018	Total
Revised	1.6	1.7	1.3	4.6
Tax revenue 1/	0.3	0.3	0.2	0.8
Current expenses 2/	1.3	1.4	1.1	3.8
Program request 3/	2+1	0.8	0.5	4.3

Source: IMF staff estimates and projections.

1/ Excluding tax on international trade and transactions (related to the EEU).

2/ Excluding grants.

3/ Additional effort of 1 percentage point is added to compensate 2015 slippage.

B. ...to maintain debt at sustainable levels

27. **Fiscal expansion, in combination with currency depreciation, would undermine debt sustainability.** Taking into account the recent currency depreciation, public debt would have surged to 76 percent of GDP by 2018 under the authorities' initial borrowing plans. Staff argued that the benefits from public investment to relieve infrastructure bottlenecks and increase growth potential should be weighed against the impact on debt sustainability, particularly in the context of stagnating revenues and rising current expenditures. The authorities agreed to revise their plans by rephasing the PIP program, which would result in debt peaking at about 68 percent of GDP by 2017, before dropping below 65 percent of GDP by 2020 (Text Table 4). However, despite the authorities' commitment, downside risks and vulnerabilities regarding debt sustainability remain high.

Text Table 4. Public Debt Trends

	2015	2016	2017	2018	2019	2020
Current projections	64.9	66.9	67.6	66.1	64.9	63.8
ECF request's projections	58.8	61.2	61.0	57.7	54.9	53.5
Difference	6.1	5.8	6.6	8.4	10.0	10.3
Contribution (in percent)						
GDP	23	19	37	25	19	14
Disbursements	-72	-72	-62	-19	7	17
Som depreciation	149	153	125	94	75	69

Sources: Kyrgyz authorities and IMF staff estimates and projections.

28. **For debt to remain at a moderate risk of debt distress, new borrowing needs to be limited.** Under the DSA, external debt in present value (PV) term is estimated at 35 percent of GDP and remittances. Additional sizable borrowing or further significant currency depreciation could tilt debt to the high risk of debt distress (Annex IV). Staff and the authorities agreed that prudence should be exercised when contracting and guaranteeing new debt (Table 7). They also agreed that a primary balance of about 2 percent of GDP by 2018 would be needed to keep public debt at sustainable levels. Given elevated debt vulnerabilities and a DSA on the verge of tipping into a high

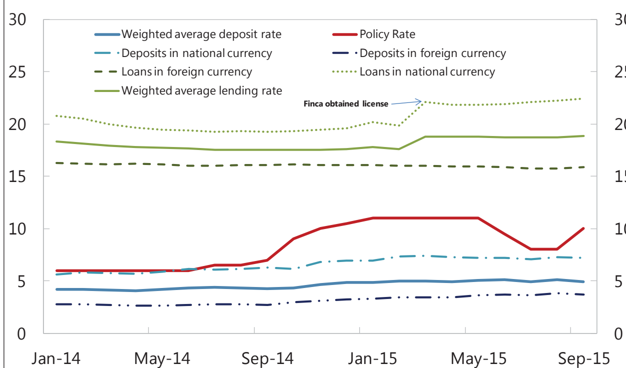
risk of debt distress, staff agreed to the authorities' request to monitor nonconcessional borrowing through an indicative target, in addition to a QPC on new debt contracted.

C. Monetary policy should remain on a tightening bias

Monetary policy is focused on containing inflationary and exchange rate pressures, but is facing difficult trade-offs between allowing exchange rate flexibility and preserving financial sector stability in the context of high dollarization, on one hand, and maintaining tight liquidity to contain inflationary and exchange rate pressures and allowing enough room for private sector credit growth, on the other hand.

29. The NBKR will continue to contain inflation within the 5–7 percent range. Despite significant currency depreciation, the NBKR has succeeded in keeping inflation in single digits. Going forward, staff and the NBKR agreed on pursuing a monetary stance with a tightening bias. This would require maintaining the policy rate positive in real terms, and adjusting it in line with emerging inflationary and exchange rate pressures. The NBKR stressed that it will use all available instruments to achieve its monetary policy targets and enhance interest rate channel traction. Moreover, given the unpredictability of MoF's withdrawal of government's deposits at the central bank, staff underscored the need to improve coordination between MoF and NBKR, to facilitate liquidity management and forecasting.

Interest Rates
(In percent)



Source: Authorities data.

30. The NBKR and staff agreed on the need to enhance monetary policy traction. While the NBKR agreed that reducing dollarization and cash in circulation are necessary to improve the traction of monetary policy, they acknowledged that this will take time and require a comprehensive and balanced set of monetary, exchange rate, and de-dollarization policies. To this end, the NBKR will: (i) keep liquidity tight at a level that provides incentive for interbank trading; (ii) continue with macro-prudential policies aimed at making dollar assets and liabilities more expensive than som ones; (iii) allow the NBKR bills to be used as collateral for the NBKR's borrowing facility as well as in the interbank market; and (iv) further improve the NBKR's communication about economic prospects and the monetary policy stance (LOI, ¶18). In addition, the NBKR will strive to narrow the corridor around the policy rate and make it symmetric, by setting a level for overnight deposit and lending rates closer to the policy rate.

31. Greater exchange rate flexibility is necessary to reduce external imbalances and safeguarding foreign exchange reserves. The NBKR's policy of allowing the exchange rate to react to external shocks helped protect both reserves and competitiveness. Going forward, the NBKR and staff agreed to continue with this approach. There was also agreement on the need to monitor the tightening effect of foreign exchange interventions to avoid stifling credit and by extension economic activity. In addition, given the large number of illegal foreign exchange bureaus and their role in exacerbating volatility in the foreign exchange market,[2] the NBKR agreed to resubmit to Parliament the amendments to the administrative responsibility code (SB, February 2016).

32. The recently completed safeguards assessment of the NBKR concluded that the continued absence of a revised legal framework remains a key vulnerability. The assessment reiterated significant weaknesses in the: (i) legal structure, particularly in governance arrangements; (ii) the audit committee, whose authority remains limited, as it only has an advisory role vis-à-vis the NBKR's Board; and (iii) the accountability mechanisms, including the external and internal audits. The authorities agreed to address these issues through the adoption of the banking law.

D. Financial sector reforms should be put on a fast track

33. While the banking sector has weathered the crisis so far, nonetheless, it remains vulnerable to exchange rate depreciation and sectoral concentration. Standard FSIs suggests a stable banking sector. However, stress tests regularly conducted by the NBKR suggest that banks, while resilient, are vulnerable to risks stemming from exchange rate depreciation and sectoral concentration, especially in trade and construction (Box 1). However, large exposures are not yet an issue; in particular, the five largest borrowers account for 56 percent of total banks' equity and 80 percent for the five largest banks' equity. Moreover, cross-border contagion risks are not significant due to limited integration in the international financial system.[3] Additional risks could emerge from the valuation of collateral as real-estate prices are declining as well as from maturity mismatch.

34. The NBKR is taking appropriate measures to mitigate financial sector systemic risks and vulnerabilities. The recently enacted macro-prudential measures—higher provisions for foreign currency loans and debt-to-income ratio for all consumer loans—helped contain foreign currency credit growth. However, depreciation expectations have also contributed to curtailing the demand for these loans. In addition, the NBKR has recently instructed banks to: (i) increase general liquidity and instant ratios;[4] (ii) introduce liquidity coverage ratios for large banks; (iii) introduce "capital buffers" requiring banks to increase their CAR to 18 percent and to 20 percent for large banks;[5] and (iv) increase loan-loss provisioning. These capital buffers and increased loan-loss provisioning will help banks to better weather direct and indirect risks stemming from exchange rate volatility. The NBKR already introduced differentiated reserve requirement for som and foreign denominated deposits. It also indicated to staff that it stands ready to strengthen existing, or

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[2] There are 293 licensed exchange bureaus and about 600 unlicensed ones.

[3] SIP, "Financial structure, Inclusion and Credit Trends in the Kyrgyz Republic."

[4] The liquidity ratio measures liquid assets over total liabilities and should be at least 45 percent; whereas, the instant liquidity ratio, it measures highly liquid assets over short-term liabilities and should be at least 35 percent.

[5] Large banks are those that hold more than 8 percent of the banking system deposits or loans.

introduce new, macro prudential measures as needs arise (LOI, ¶22), including to address sectoral concentration risks . Moreover, improving the banking resolution framework, a key objective of the Banking Law, is critical for ensuring financial sector stability.

35. The NBKR is committed to implementing some outstanding FSAP recommendations, to strengthen the financial sector (Annex II). In particular, with the help of the new IMF resident advisor, who started in November, the NBKR will develop a strategic plan to enhance banking supervision. This plan will: (i) provide a roadmap for transition to risk based supervision; (ii) prepare a clear program for supervisory activities; and (iii) increase staffs' capacity through training. At the same time, the NBKR will work with MoF and the Deposit Protection Agency (DPA) to conduct crisis simulation exercises (LOI, ¶22). The NBKR agreed that maintaining prudent lending standards and risk management practices is instrumental for preserving financial sector stability during the phase of strong credit growth and financial deepening.

36. Progress on banking sector reform is mixed. The banking law continues to linger in parliament. It will take the new parliament some time to familiarize itself with the draft law and go through the mandatory readings. The authorities are committed to ensure the enactment and publication in the Official Gazette of the Banking Law and the related "Law on Enacting the Banking Law" in a form substantially similar to the draft Banking Code submitted to parliament in September 2013 (SB, September 2016). In the interim, staff and the authorities agreed to implement compensatory measures to preserve the stability of the banking sector, including: (i) starting the process of liquidation for the two banks that are under NBKR's conservatorship;[6] (ii) appointing an auditor (prior action) and completing the audit of DEBRA by March 2016 (LOI, ¶24)—this will pave the way for completing the liquidation process and winding down DEBRA's assets; (iii) developing a crises preparedness framework (SB, September 2016); and (iv) preparing a strategic plan for supervision.

Box 1. The NBKR's Stress Test

The NBKR conducts stress tests on a monthly basis, based on the Cihak stress test model. It measures risks to the system stemming mainly from credit, direct and indirect foreign exchange risk, interest rate, specific sector trends and liquidity. The NBKR also conducts a multifactor stress tests, as well as liquidity and reverse stress testing.

Credit risk stress test assesses the impact of deterioration in total loan portfolio or particular sectors on CAR. In particular, three types of stress tests are conducted, namely: (i) downgrading of all loans by one or two categories; (ii) a combination of downgrading all classified loans by one category, as well as partial downgrade of performing loans; and (iii) individual or combined sectoral shocks. The outcome of this stress test suggests that some banks are sensitive to these shocks.

Exchange rate stress test assesses the direct risk of a 30 percent depreciation of the som, as well as the indirect risk, which takes into account the balance sheet effect of the depreciation.

Multifactor stress test assesses the impact on CAR of one category downgrade of all loans, together with

[6] Licenses were suspended in June/July 2015, and after the 30 days mandatory period for filing complains elapsed, banks were transferred to DEBRA, that now has eight banks under liquidation process.

interest rate, and direct and indirect FX risks.

Finally, interest rate shocks do not have major impact on banks' profitability. Liquidity and reverse stress testing are also regularly conducted, but data are confidential. In addition, the NBKR also carries out macroeconomic stress testing, but the model specification and modeling techniques need to be refined.

E. Structural reforms

Structural reforms under the program aim at implementing PFM reforms to improve public sector efficiency and accountability and help restore fiscal buffers; implementing AML/CFT reforms and procurement laws in order to boost anticorruption efforts; and putting the energy sector on a sustainable commercial footing to reduce its fiscal footprint and improve access.

37. PFM reforms will improve public sector efficiency and accountability and rebuild fiscal buffers. Staff and the authorities agreed on the need to continue to press ahead with PFM reforms (LOI, ¶29). The Memorandum of Co-operation with TIKA, the Turkish Cooperation and Coordination Agency to finance the new FMIS will be signed in the second quarter of 2016 (SB, June 2016). The authorities will work on developing a methodological framework for assessing budget risks, with IMF TA. The authorities remain committed to making every effort to ensure the enactment by parliament of a budget code in line with IMF and World Bank advice.

38. The adoption of an AML/CFT and procurement laws will boost anticorruption efforts. In this context, staff and the authorities agreed on the need to strengthen and implement an AML/CFT regime in line with international standards. The outgoing parliament rejected the previous AML/CFT law, but the authorities agreed to submit a new draft that reflects all the recommendations provided by the Fund to the new parliament by next April 2016 (LOI, ¶25). Staff and the authorities agreed that timely action through the adoption and publication of the law should contribute to a positive Eurasian Group on Combating Money Laundering and Financing of Terrorism assessment in 2016.

39. Putting the energy sector on a financially sustainable footing would not only reduce the sector's fiscal burden but would improve the business environment by facilitating access. Energy sector reforms should aim at improving service delivery and putting it on sound economic footing. In this context staff and the authorities in consultation with the World Bank agreed to: (i) review the regulatory framework to clarify roles and responsibilities; (ii) enhance policy planning and management and establish a national power clearance center to improve coordination among the various actors; (iii) work to improve internal controls, introduce management information systems at power companies and roll out smart power usage meters; and (iv) review the methodology for setting power tariffs to ensure economic soundness and adjust accordingly the roadmap for increasing tariffs and developing targeting social protections.

40. Proper use of the RKDF's funds would help expand the economy's growth prospects. This would require that the RKDF operates in line with market-based, good governance, and transparency principles. Staff underscored the following: (i) the RKDF lending operations should not distort market operations; (ii) subsidized lending schemes should be transparent and should not hamper banking sector operations; and (iii) RKDF programs should be open to all banks, and not only to state-owned banks. The authorities concurred with staff recommendations. They also pointed out that the RKDF is expected to facilitate financial deepening by financing large projects which banks cannot finance.

F. Program modalities

41. Program design and modification of performance criteria. Revised QPCs for December 2015 and new QPCs for March, June, September and December 2016 ,on the floor on NIR, ceiling on NDA, and ceiling on cumulative over deficit of the general government and ITs on ceiling on reserve money and cumulative state government tax collections, are proposed (LOI, Table 1). Additionally, in line with the new debt limit policy, the QPC on present value of debt will replace the one on nonconcessional borrowing. At the request of the authorities, the latter will be maintained as an IT.

42. The program will continue to be monitored on a semi-annual basis. The second review will be based on continuous and end-December 2015 QPCs and the third review on continuous and end-June 2016 QPCs. Structural conditionality will focus on macro-critical areas, particularly in the financial sector to ensure its stability and on streamlining public spending in support of fiscal consolidation.

43. Financing needs for the remainder of this and next year are expected to be fully covered. Donors and the Fund are expected to cover the balance of payment gap in 2015–16 (Text Table 5). The capacity to repay the Fund remains adequate (Table 10).

Text Table 5. Balance of Payments Financing Needs, 2015–18

	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
	(In millions of U.S. dollars)			
Financing Gap	119.2	67.6	121.6	86.3
Available financing	91.7	40.0	93.8	72.3
Identified budget support	91.7	40.0	43.8	22.3
World Bank	14.7	20.2	15.9	1.4
European Union	17.6	19.8	20.9	20.9
Other Grants	59.4	0.0	7.0	0.0
Unidentified budget support	0.0	0.0	50.0	50.0
IMF ECF disbursement	27.5	27.6	27.8	14.0
	(In percent of GDP)			
Financing gap	1.7	0.9	1.5	1.0
Available financing	1.3	0.5	1.1	0.8
Identified budget support	1.3	0.5	0.5	0.2
World Bank	0.2	0.3	0.2	0.0
European Union	0.2	0.3	0.3	0.2
Other Grants	0.8	0.0	0.1	0.0
Unidentified budget support	0.0	0.0	0.6	0.6
IMF ECF disbursement	0.4	0.4	0.3	0.2
Memorandum item:				
GDP (in millions of U.S. dollars)	7,158	7,659	8,301	8,991

Sources: Kyrgyz authorities and IMF staff estimates and projections.

ARTICLE IV DISCUSSIONS: ADDRESSING MEDIUM-TERM CHALLENGES

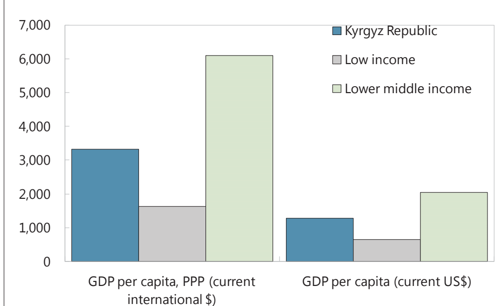
The key challenge over the medium term is to raise potential growth and make growth more inclusive. Dependence on gold, remittances, and foreign aid leaves the economy vulnerable to external shocks. Sound policies and adequate reforms are needed to improve productivity, rebuild buffers to increase the economy's resilience to shocks, and create a stable and well-functioning financial sector.

A. Increasing medium-term growth prospects and inclusiveness

Gold, remittances, and foreign aid accounted for over 40 percent of GDP in 2014. These external sources generate uneven growth as evidenced by rising disparities especially at the regional level. External dependence also increases vulnerability to shocks and reduces the government's scope for action.

44. Enhancing potential growth is necessary for the Kyrgyz Republic to become a dynamic emerging market economy and to bring living standards closer to the lower middle income country (MIC) level. The lack of economic diversification makes the Kyrgyz economy susceptible to shocks. Overall and nongold growths have fallen below potential in recent years. Additionally, the large non-observed economy (NOE) is depriving public finances of critically needed resources. Although the GINI coefficient has improved over the past decade, the relative share of income of the lowest quintile of the population has declined (SIP, "Income Inequality in the Kyrgyz Republic"). Despite complex and costly social protection schemes, only one fifth of those in the poorest quintile receive social benefits. The business environment continues to pose significant challenges as the Kyrgyz Republic lags behind its neighbors.

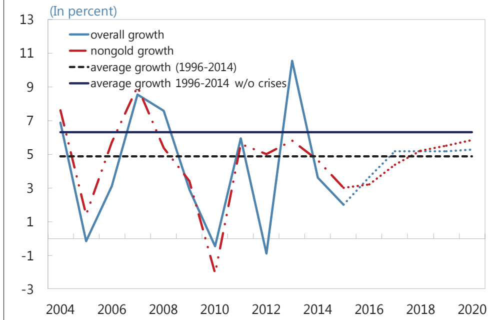
GDP per Capita in 2014



Source: World Development Indicators database.

GDP Growth

(In percent)



Sources: Authorities data and IMF staff calculations.

45. Staff and the authorities agreed on the need to introduce reforms to promote sustainable and broad-based growth. Over the past two decades growth relied on capital spending and abundant supply of labor, while productivity and human capital stagnated. This model, together with the country's dependence on external resources, produced volatile and anemic growth. In addition, the reliance on remittances has also not contributed significantly to long-term growth (SIP "Impact of Workers' Remittances on Kyrgyz Economic Growth"). The authorities concurred with staff on the need to implement productivity enhancing reforms and investment in human capital, which are necessary to transition to a new growth model (Box 2).

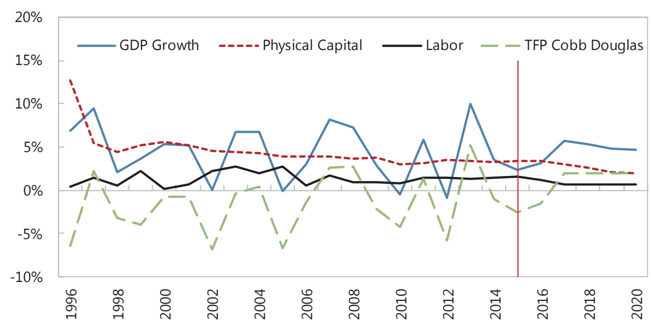
46. The authorities recognized that improving the business climate is essential for diversifying the economy, improving productivity and maximizing the benefits from EEU accession. The latest World Bank Doing Business Report highlights persistent challenges in the areas of ease of trading across borders, the insolvency regime, access to electricity, tax payment, and contract enforcing, where the Kyrgyz Republic lags behind its' regional peers. As a result, staff and the authorities agreed on the need to address these key weaknesses by: (i) reducing the number of payments and documents needed to pay taxes; (ii) simplifying access to the power grid; (iii) simplifying the regime for cross-border trade and removing nontariff barriers as well as reducing procedures and document requirements; (iv) accelerating the process for contract enforcement and reducing costs; and (v) reducing the time needed to resolve insolvency. A constructive and fair resolution of the dispute with Centerra is not only essential to prevent disruptions to gold production but also to create a stable and predictable investment climate.

47. The authorities acknowledged that improving tax fairness and the ease of paying taxes are essential to bringing economic activity out of the shadows. The NOE contributes between 24 percent of GDP according to official statistics and 40 percent according to OECD estimates. The NOE is particularly prevalent in trade, hospitality, transport, and agriculture. While often more productive, the non-observed economy deprives public finances of an estimated revenue of 6–13 percent of GDP. The authorities agreed with staff that an integrated tax compliance strategy which balances assistance, encouragement and enforcement is key in formalizing the NOE. Such a strategy would include: (i) improving the ease of paying taxes and reducing unfairness particularly through the elimination of exemptions; (ii) improving and expanding the coverage of social safety net and essential public services; and (iii) carrying out public education campaign aimed at reducing the tolerance for the NOE.

Box 2. Growth, Productivity, and Reforms

Economic growth is low and volatile. Based on a simplified growth accounting framework using the standard Cobb Douglass production function, data on labor markets, demographic change, and gross fixed capital formation, growth should potentially average 5 percent in real terms against an expected average growth rate of 4.6 percent over the coming five years. As a result real GDP per capita in PPP term languishes at about 10 percent of the EU level.

Growth Accounting Decomposition 1996–2020



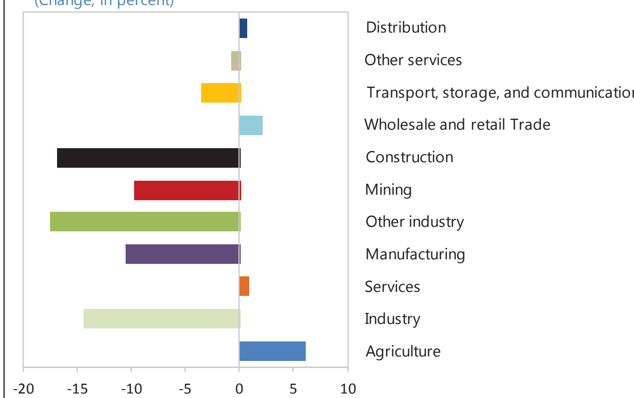
Sources: Authorities data and IMF staff calculations.

Growth is mainly driven by capital spending and an abundant supply of labor. Total factor productivity is volatile, reflecting shocks to the economy rather than changes in productivity. This model is not sustainable. Labor supply growth is limited by demographics, human capital growth is stagnant. The share of gross fixed capital formation in GDP is growing suggesting that capital spending is not contributing to long term potential. Further reliance on capital spending is undermining debt sustainability.

Economic volatility reflects vulnerabilities arising from dependence on external sources. Most shocks to the economy are either the result of political upheavals or external developments. Dependence on gold, remittances, and foreign aid, which accounted for up to 40 percent of GDP in 2014, amplifies the impact of such shocks on the economy.

Sectoral Productivity 2000 –06

(Change, in percent)



Sources: Authorities data and IMF staff calculations.

The economy is increasingly dominated by trade, transport, other services, and agriculture. These sectors are marked by both low productivity and high degree of informality. Productivity has been falling in most these sectors with the exception of agriculture. Non-observed economic activity is also highest in the same sectors.

The NOE deprives the budget from valuable resources. Non-observed activity has a negative impact on public finances estimated at 6–13 percent of GDP, which has a detrimental impact on public welfare and second round impact on growth.

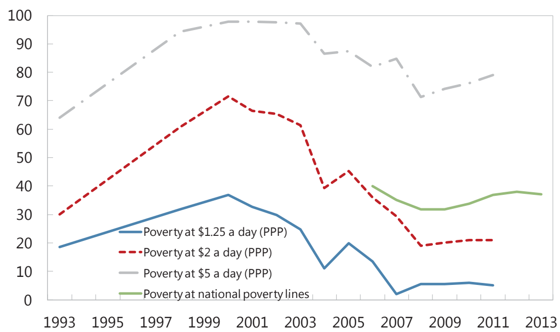
Diversifying the economy, increasing productivity, and bringing economic activity out of the shadows will require significant improvements to the business environment. The latest World Bank Doing Business Report highlights persistent challenges in across borders trading, resolving insolvency, access to electricity, paying taxes, and enforcing contract. Reforms aimed at addressing these weaknesses would go a long way towards correcting structural imbalances and enhancing growth potential.

48. The authorities concurred with staff on the importance of reducing income inequality to promote growth inclusiveness. While extreme poverty has declined, overall poverty remains high compared to regional peers. Extreme poverty, defined by an income of US$1.25 a day, remains below 5 percent, while about 80 percent of the population still lives below US$5 a day. Poverty is concentrated in rural areas with pronounced differences in poverty levels across regions and municipal areas. This has been driven by volatile growth, high population growth, poor infrastructure, and weak institutions. The authorities agreed that sustainably reducing income inequality will require: (i) achieving macroeconomic stability; (ii) consolidating public finances to create more space for targeted social spending; (iii) broadening access to finance; (iv) improving the business environment; and (v) building human capital by improving education and enhancing workers' skills via training programs.

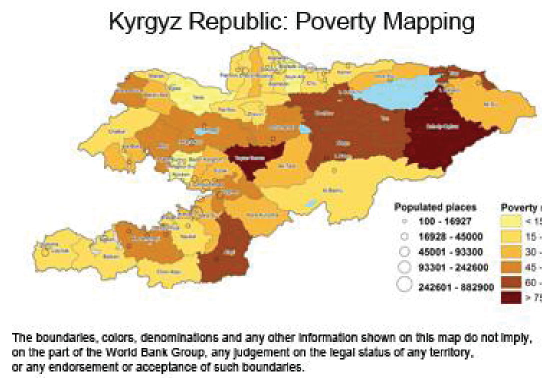
Poverty

Poverty Indicators

(Percent of population)



Sources: World Bank, Global Poverty Working Group.



B. Increasing the economy's resilience to shocks

Deteriorating fiscal and external balances, foreign financed capital spending and a depreciating currency are eroding already thin buffers and inflating public debt. Compared to the last Article IV consultation, foreign exchange reserves are ½ month of imports lower and public debt is 20 percent of GDP higher. The budget continues to be dependent on grants, whereas tax revenues are relatively low for the region. While a countercyclical fiscal stance was needed in 2014–15, a robust fiscal adjustment over the medium term is needed to bring the debt ratio to below 65 percent of GDP.

49. Persistently large current account deficits undermine economic performance and deplete buffers. The large deficits reflect insufficient national savings relative to investments supported by sizable official external resources. Based on a range of approaches used by staff, the som could be considered moderately overvalued by 4–14 percent (Annex V). Staff and the NBKR agreed that the current policy of allowing the som to fluctuate with market conditions together with limited foreign exchange interventions to smooth out volatility is appropriate.

Kyrgyz Republic: Exchange Rate Assessment[1]

Method	EBA-lite	CGER-like methodologies		
	Macroeconomic Balance	Macroeconomic Balance	External Sustaibility	Purchasing Power Parity
Current account actual (2015)	-16.0			
Current account norm (2015)	-11.5			
CA gap	4.5			
Underlying current account (2019/20)		-11.2	-11.2	
Current account norm (2019/20)		-7.2	-9.3	
CA gap		4.0	1.9	
REER Misaligment	14.0	9.0	4.4	4.3

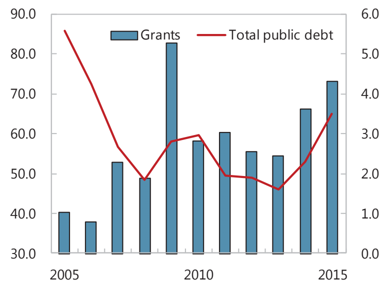
[1] Positive numbers indicate overvaluation

Sources: Authorities data and IMF staff calculations.

50. **Based on the IMF's reserve adequacy metric (ARA), the foreign exchange reserves appear slightly insufficient to buffer the economy against shocks.** Reserves currently stand at 3½ months of imports, about ½ months of imports lower than at the time of the previous Article IV consultation. The difference could have been even higher, had imports in 2014–15 not contracted due to negative spillovers in the region. Staff and the authorities agreed on the need to rebuilt reserves to around four months of imports, notably taking into account the country's vulnerability to shocks and the high level of dollarization.

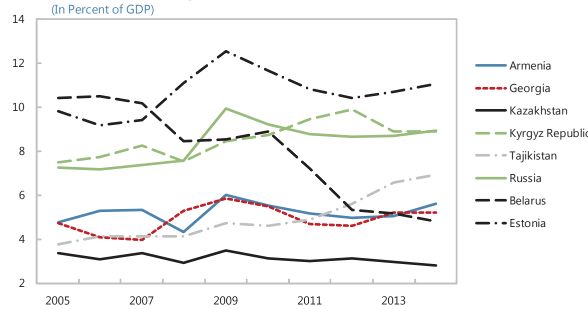
51. **Maintaining public debt at a sustainable level warrants rebuilding fiscal buffers.** The country is financing its deficit by relying on external debt, grants, and depleting deposits at the NBKR. Fiscal buffers should be rebuilt by raising sustainable revenues, containing current expenditures, and borrowing responsibly to address infrastructure gaps (SIP, "Cross Country Comparison on Tax Revenue and Expenditure"). Raising tax revenues entails improving personal and corporate income tax by broadening the tax base and reducing the unfairness of the tax system, by eliminating exemptions and special regimes. Increasing the VAT rate, which is the lowest in the region, should also be considered. The wage bill is expected to exceed 9 percent of GDP this year while regional comparator countries average around 6 percent of GDP. Reducing current expenditure should thus include a reduction in the wage bill in line with the action plan to be developed as a result of the review of public wages due by April. Additionally, the authorities should refrain from using one-off revenues for financing permanent expenditures; streamline nonpriority expenditures; consolidate social benefits to improve the targeting of the existing social programs, and review subsidies (SB, June 2016).

Grants and Total Public Debt
(In percent of GDP)



Sources: Authorities data and IMF staff calculations.

Public Sector Wages
(In Percent of GDP)



Sources: Authorities data and IMF staff calculations.

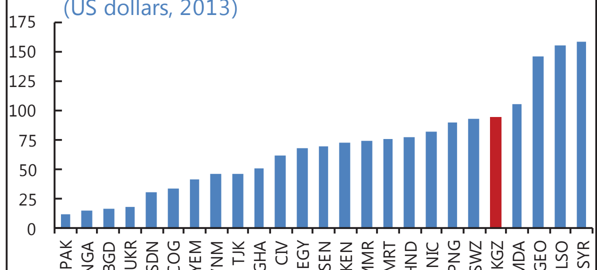
52. Rebuilding policy buffers by mobilizing domestic revenues and streamlining expenditures is essential for financing for development (Box 3). The authorities concurred with staff's external stability assessment and reiterated the importance of holding foreign exchange reserves at an adequate level of about four months of import cover. They also agreed that they should take steps to enhance tax collection and streamline spending in line with regional peers, particularly given their considerable development needs. However, they felt that increasing the VAT rate was not appropriate at this stage.

Box 3. Financing for Development

High development needs in the Kyrgyz Republic for achieving a dynamic middle-income status requires sufficient amount of financing. Given the urgency of the country's transition to sustainable development, the country's Poverty Reduction Strategy (PRS) aims for delivering sufficient investments in physical infrastructure with improved governance institutes, effective laws, advanced human resource capacities. The latest PRS estimates the necessary funding for 2013–17 amounts to som 355 billion, equivalent to 81 percent of the 2015 GDP, but identified only half of the financing need.

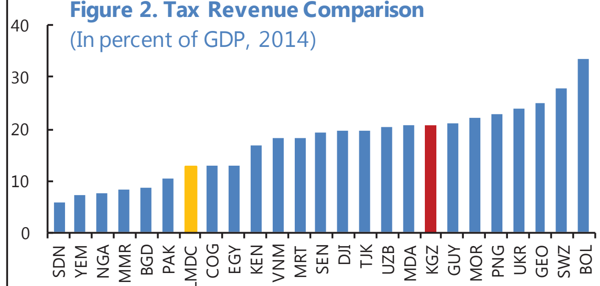
External debt vulnerability is approaching the threshold of high risk of distress, strengthening the case for domestic revenue mobilization and prioritization of investments. A scale up in external concessional borrowing or grants is unlikely since the country has already received relatively high official development assistance (Figure 1). Given this constraint, domestic revenue mobilization would address such financing gap.

Figure 1. Per Capita Official Development Assistance
(US dollars, 2013)



Source: World Development Indicators database.

Figure 2. Tax Revenue Comparison
(In percent of GDP, 2014)

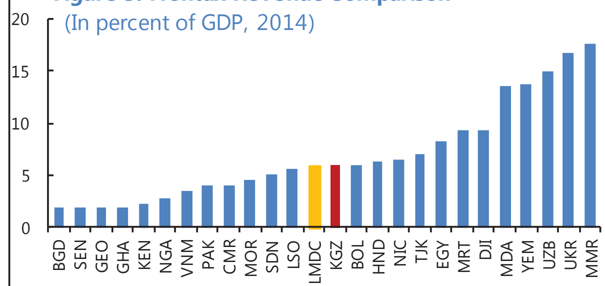


Source: World Economic Outlook database.

Box 3. Financing for Development (concluded)

Compared to the peers in lower-middle income tax revenue is feasible. Nontax revenue offers even more room for improvement (Figures 2 and 3). To broaden the domestic revenue base, in particular, the authorities should consider: (i) using a corporate income tax levied at a competitive rate on a broad base; (ii) introducing a progressive personal income tax; and (iii) strengthening real property taxes.

Figure 3. Nontax Revenue Comparison
(In percent of GDP, 2014)



Source: World Economic Outlook database.

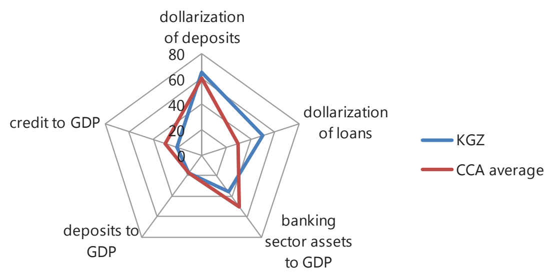
Financing for development should be complemented by improving the efficiency of public investment. A substantial increase in domestic revenue mobilization will take time. In light of potential absorptive capacity constraints, the government should guarantee high-quality spending through improving project appraisal and enhancing transparency in project selection and procurement with assistance from the international development partners.

C. Making the financial sector an engine for private sector-led growth

Despite strong credit growth of the past three years, the financial sector remains relatively small, highly dollarized, and cash-based. Average weighted loan maturity is still under two years, therefore not providing sufficient support for investment. Developing the financial sector will be critical to promote growth, and increase financial inclusion. Making financial sector an engine for private sector-led growth will require addressing existing sensitivities to the exchange rate, pursuing stable and credible macroeconomic policies aimed at reducing dollarization, and broadening the range of financial instruments.

53. **Despite strong banking sector growth over the last three years, financial intermediation remains limited.** The banking system is highly dollarized and its assets stand at around 38 percent of GDP. The economy remains cash-based with weak saving mobilization—deposits are equivalent to 18 percent of GDP, and are mostly demand deposits. Credit to GDP stands at 20 percent, well below the region's average. Financial inclusion remains low with about 26 percent of the population possessing a bank account. Concentration in the banking system is not an issue, as five largest banks hold just above half of total deposits and loans.

Banking Indicators 2015



Sources: Authorities data and IMF staff calculations.

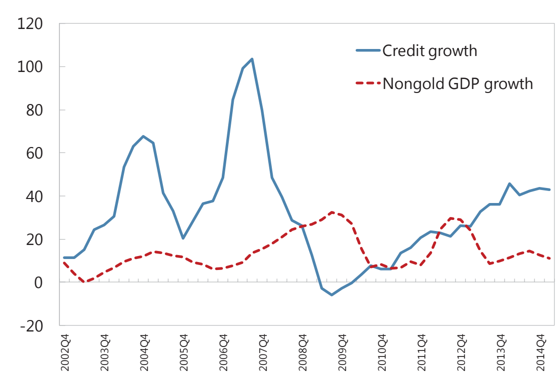
Banking Concentration Indicators
(In percent of total)

	5 largest banks	10 largest banks	10 smallest banks
Assets	53.9	82.4	12.7
Loans	54.5	85.6	10.7
Deposits	58.9	80.7	12.5

Sources: NBKR data.

54. While there is no evidence of a substantial contribution from the financial sector to nongold economic activity, the link between the real and credit growth in individual sectors is more pronounced. The analysis of linkages is hampered by a still underdeveloped financial system, a large non-observed economy and frequent structural breaks. Nevertheless, the correlation between the financial sector and the nongold economy is positive and started to strengthen after 2010 (SIP, "Real Financial Linkages in the Kyrgyz Republic"). At the sectoral level, agriculture growth has been supported by the government's subsidized loans program, which contributed by about 9.5 percent to the overall credit growth. In the trade sector, which was impacted by regional developments, growth has slowed down to 4.5 (year-on-year) this year, which in turn has resulted in a similar drop in loans to this sector.

Credit and Nongold GDP Growth
(Seasonally adjusted data, y-o-y)



Sources: Authorities data and IMF staff calculations.

55. The exchange rate appears to explain the nexus between the real and financial sectors. Given the high dollarization of the banking sector, the exchange rate movements strongly affect the demand for credit and choice of currency. In addition, the trade and construction sectors, the key drivers of the economy, are sensitive to exchange rate movements as NPLs in these sectors are higher and react quickly to changes in the value of the som. The measures outlined in paragraph 34 will help address vulnerabilities stemming from the exchange rate.

56. Going forward, the feedback between the financial and real sectors is expected to strengthen. In particular, strong credit growth during previous years is expected to partly offset the negative regional spillovers on the economy, and support medium-term growth. The Russian-Kyrgyz Development Fund operations are also expected to provide a push for growth. Potential negative spillovers from the financial sector to the economy are expected to be limited, given the relatively small size of the financial sector and the cash-based nature of the economy. Problems in the financial sector would likely result in withdrawal of deposits from banks, a further increase in dollarization and slowdown in credit, which could exacerbate exchange rate pressures and hamper growth prospects.

57. A credible monetary and exchange rate policy framework, low inflation and deeper domestic financial markets are essential for the success of any de-dollarization policy. While the NBKR has successfully established a new monetary policy framework, it should continue to increase its traction by addressing the key impediments for monetary policy transmission and to pursue a flexible exchange rate policy. This, together with a prudent fiscal policy, will lay the ground for a stable macroeconomic environment. The NBKR's macro-prudential policies are a step in a right direction. Implementing market-driven and gradual dedollarization policies will build trust in the financial market. Staff and the authorities agreed that nonmarket based de-dollarization measures such as forced conversion of foreign currency deposits or suspension of access to foreign currency deposits, should be avoided.

58. Developing a market for domestic securities is a first step in deepening domestic financial markets, and should be carefully coordinated between the MoF and the NBKR. A deeper market for government securities will encourage interbank activity, where these securities could be used as collateral. Moreover, hedging instruments, primarily SWAPs, should be developed to enable clients to protect themselves against risks, in particular exchange rate risks.

STAFF APPRAISAL

59. Despite significant reform efforts over the past two decades, entrenched structural challenges stand in the way of achieving sustainable, broad-based growth. Dependence on gold, remittances, and foreign aid as well as low productivity expose the economy to external shocks and hold back potential growth. Economic activity continues to rely on unsustainable public spending. The link between credit growth and the real economy is weak in the context of high dollarization and informality. Access to energy, transport, and other essential services is hampered by infrastructure and institutional bottlenecks. Poverty is stubbornly high, especially in disadvantaged regions. The business climate is clouded by bureaucratic barriers and institutional weaknesses.

60. Since the last Article IV consultation in 2013, the economy has been hit by severe long-lasting external shocks, weakening economic performance and increasing vulnerabilities. These shocks have taken their toll on the external and fiscal balances as well as domestic demand. Growth slowed down, inflation inched up, fiscal and to a lesser extent foreign exchange buffers were depleted. An ambitious foreign financed public investment program and currency depreciation pushed debt to the brink of high risk of distress. The financial sector benefiting from adequate capitalization is stable but vulnerabilities are rising in the context of high dollarization and a weakening som. In light of these increasing vulnerabilities, it is critical that the authorities persevere with reforms and seize opportunities to rebuild buffers.

61. **The weaker external environment is likely to last into the medium term and warrants rebuilding buffers to enhance resilience, strengthening the financial sector as an engine for a broad-based private sector-led growth and carrying out structural reforms to expand potential growth.** Rolling back debt, replenishing fiscal and foreign exchange buffers is essential to create space for fiscal and monetary policy and increase the resilience to future shocks. Strengthening the financial sector is critical to promote growth, and financial inclusion. Reforms aimed at improving the business climate, diversification, and productivity are preconditions for sustainable and inclusive growth.

62. **Fiscal consolidation and sound public investment and financing strategies are essential to bring debt back to sustainable levels and create space for pro-poor and pro-growth spending.** Fiscal slippages in 2015 are regrettable, particularly as windfall revenues were used to finance permanent expenditures. Nevertheless, the authorities' commitment to resume fiscal consolidation in 2016 and accelerate it in 2017–18 is welcome. The commitments need to be backed up by strong ownership and concrete measures. Tax revenues should increase with efforts aimed at widening the tax base by removing exemptions, increasing fairness and simplifying tax procedures. Tax administration should be strengthened through reorganization aimed at improving efficiency. Fiscal effort should include a reduction of the wage bill and continued streamlining of goods and services and other nonpriority expenditures. Prudence should be exercised when contracting and guaranteeing new debt. Public investment projects should be rephased and prioritized to ensure debt sustainability. Efforts should be stepped up to mobilize domestic sources of financing for development.

63. **Monetary and exchange rate policies should continue to focus on containing inflationary and exchange rate pressures, enhancing flexibility and safeguarding foreign exchange reserves.** Monetary policy should remain on a tightening bias, and ready to address rising inflationary and exchange rate pressures. The NBKR should continue to limit interventions to smoothing out excessive volatility while allowing the exchange rate to absorb external shocks. The NBKR should use all available instruments to sterilize the tightening effect of its foreign exchange interventions so as to avoid stifling economic activity. Implementing market-based de-dollarization measures will be critical.

64. **Progress on banking sector reforms, particularly the enactment of the banking law is essential to support financial sector stability and enhance the sector's contribution to growth.** The enactment of the banking laws is critical to strengthening the resolution mechanism and improving central bank independence. In addition, macroeconomic policies, will need to be supplemented by strong supervision, macro-prudential polices, and a crises preparedness framework. Finalizing the liquidation of banks under DEBRA and winding down its assets are essential for building confidence in the banking sector.

65. **Improving the business climate, bringing economic activity out of the shadows, enhancing productivity and human capital, and addressing infrastructure bottlenecks are essential to reducing vulnerability and enhancing broad-based growth.** Reforms should include developing an integrated tax compliance strategy which balances assistance, encouragement, and

enforcement. The energy sector should be placed on a sound commercial footing with lower subsidies, better management, and simplified access to the grid. The regime for cross border trade should be simplified by reducing the number of procedures and documents needed. The same is necessary for the process of contract enforcement and for resolving insolvency. A constructive and fair resolution to the dispute with Centerra is not only necessary to prevent potential disruptions in gold production but also to create a stable and predictable investment climate.

66. The authorities' efforts to keep the program on track are commendable. The unbudgeted fiscal expansion this year has worsened the debt situation and the delay in passing the Banking Law is regrettable. However, the authorities' commitments to resume fiscal consolidation in 2016 with the objective of bringing debt below 65 percent of GDP over the medium term, and to implement compensatory measures until the banking law is enacted should help to maintain the program on track.

67. Risks to the program are significant, but the authorities' policy commitments under the program provide sufficient safeguards and the Kyrgyz Republic's repayment capacity remains adequate. The key risks are related to negative regional spillovers, uncertainty about gold production, fluctuating gold prices and volatile exchange rates. Expansionary policies in the run-up to the 2016 and 2017 elections could weaken the reform process, undermine macroeconomic stability, and elevate debt to a high risk of distress. Continuous policy dialogue with the Fund will remain essential for the success of the program, along with the commitment to adjust policies as needed to achieve the program's objectives.

68. Staff supports completing the first review of the authorities program under the ECF arrangement. Staff support authorities request to modify end-December 2015 QPCs and ITs and to set new QPCs and ITs for end-March, end-June, end-September, and end-December 2016. The attached LOI outlines policies for the rest of the year and 2016, to achieve program goals. Staff also supports the modification of performance criteria.

69. It is recommended that the next Article IV consultation be held in accordance with Decision No. 14747–(10/96).

Table 1. Selected Social and Economic Indicators, 2013–20

I. Social and Demographic Indicators

Population (In millions, 2014)	5.9	GINI Index (2012)	27.4
Unemployment rate (official, 2013)	8.0	Life expectancy at birth in years (2013)	70.2
Poverty rate (2013)	37.0	Adult literacy rate (percent of population)	99.0
GNI per capita (2014, Atlas method, U.S. dollars)	1250	Under-5 mortality (per 1000 live births) (2014)	22.6

II. Economic Indicators

	2013	2014	2015	2016	2017	2018	2019	2020
	Act.	Act.	Projections					
Nominal GDP (in billions of soms)	355.3	397.3	434.2	487.3	537.3	600.6	662.9	730.8
Nominal GDP (in millions of U.S. dollars)	7,333	7,402	6,660	6,749	7,295	7,993	8,650	9,349
Real GDP (growth in percent)	10.5	3.6	2.4	3.6	3.1	5.3	5.2	6.0
Nongold real GDP (growth in percent)	5.8	4.6	3.4	3.2	4.0	4.5	5.0	5.5
GDP per capita (in U.S. dollars)	1,269	1,256	1,114	1,114	1,188	1,283	1,370	1,460
Consumer prices (12-month percent change, eop)	4.0	10.5	7.6	7.0	6.5	5.9	5.4	5.1
Consumer prices (12-month percent change, average)	6.6	7.5	7.4	8.9	6.9	6.1	5.7	5.3
Investment and savings (in percent of GDP)								
Investment	26.1	27.0	28.7	31.0	29.3	27.6	25.5	24.8
Public 1/	7.0	8.6	11.9	16.5	13.7	11.1	8.7	7.7
Private	19.1	18.4	16.8	14.5	15.6	16.5	16.8	17.1
Savings	11.1	10.2	12.7	13.8	14.4	13.5	12.5	13.4
Public	9.2	8.9	4.5	5.6	8.0	8.5	8.8	8.5
Private	1.9	1.3	8.3	8.1	6.4	5.0	3.6	4.9
Savings-investment balance	-15.0	-16.8	-16.0	-17.3	-14.9	-14.1	-13.1	-11.4
General government finances (in percent of GDP) 2/								
Revenue	34.4	35.9	37.4	35.7	35.4	35.3	35.5	35.3
Of which: Tax revenue	20.5	20.8	20.0	22.0	22.3	22.5	22.7	22.9
Expense	31.1	30.3	31.4	29.8	28.3	27.1	26.6	26.3
Gross operating balance	3.3	5.6	5.9	5.9	7.1	8.2	8.8	9.0
Net acquisition of nonfinancial assets	7.0	5.8	9.5	10.4	8.4	6.7	7.4	7.7
Overall balance(net lending/borrowing)	…	-0.2	-3.5	-4.5	-1.3	1.5	1.4	1.3
Overall balance including onlending	-3.8	-3.9	-5.4	-9.1	-4.1	-1.1	0.6	1.3
Primary net lending/borrowing	…	0.7	-2.5	-3.5	-0.2	2.5	2.4	2.2
Primary balance excluding foreign financed PIP loans	…	4.3	3.0	4.0	6.2	7.3	7.8	2.2
Primary balance excluding grants	…	-2.9	-6.9	-7.3	-3.8	-0.4	-0.1	0.5
Total public debt 3/	46.1	53.0	64.9	66.9	67.6	66.1	64.9	63.8
Banking sector								
Reserve money (percent change, eop)	13.4	-11.9	7.2	7.9	7.7	6.7	6.6	6.3
Broad money (percent change, eop)	22.8	3.0	11.0	13.3	12.8	12.5	11.9	11.7
Credit to private sector (percent change, eop)	36.1	43.6	18.5	17.2	14.0	15.2	13.8	11.9
Credit to private sector (in percent of GDP)	16.1	20.7	22.4	23.4	24.2	25.0	25.7	26.1
Velocity of broad money 4/	2.9	3.2	3.1	3.1	3.0	3.0	3.0	2.9
Policy Rate	4.2	10.5	…	…	…	…	…	…
External sector								
Current account balance (in percent of GDP)	-15.0	-16.8	-16.0	-17.3	-14.9	-14.1	-13.1	-11.4
Export of goods and services (in millions of U.S. dollars)	3,763	3,255	2,739	2,899	2,977	3,196	3,430	3,756
Export growth (percent change)	16.3	-13.5	-15.8	5.8	2.7	7.3	7.3	9.5
Import of goods and services (in millions of U.S. dollars)	6,723	6,521	5,296	5,728	6,008	6,410	6,583	6,843
Import growth (percent change)	9.2	-3.0	-18.8	8.2	4.9	6.7	2.7	4.0
Gross International reserves (in millions of U.S. dollars)	2,226	1,856	1,770	1,586	1,776	1,887	2,044	2,383
Gross reserves (months of next year imports, eop)	4.1	4.2	3.7	3.2	3.3	3.4	3.6	4.0
External public debt outstanding (in percent of GDP)	43.7	51.0	63.0	65.3	66.1	64.7	63.6	62.7
External public debt service-to-export ratio (in percent)	2.7	3.6	4.9	6.2	6.6	6.9	7.1	6.9
Memorandum items:								
Exchange rate (soms per U.S. dollar, average)	48.4	53.7	…	…	…	…	…	…
Real effective exchange rate (2010=100) (average)	107.6	107.25	…	…	…	…	…	…
Gold related tax receipts of the general government (percent of GDP)	1.0	1.2	…	…	…	…	…	…

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Includes general government and onlending to state owned enetrprises

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

3/ Calculated at end-period exchange rates.

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

Table 2. Balance of Payments, 2013–20

(In millions of U.S. dollars)

	2013	2014	2015	2016	2017	2018	2019	2020
	Act.	Act.	Proj.					
Current account balance 1/	-1,101	-1,245	-1,065	-1,165	-1,089	-1,126	-1,132	-1,064
Excluding transfers	-3,383	-3,497	-2,799	-3,049	-3,267	-3,428	-3,546	-3,570
Trade balance	-2,909	-2,935	-2,357	-2,692	-2,873	-3,010	-2,918	-2,844
Exports, fob	2,705	2,355	2,005	2,067	2,069	2,230	2,389	2,616
CIS countries	1,682	1,353	1,136	1,153	1,175	1,228	1,315	1,423
Of which: Energy products	97	63	57	63	68	71	75	77
Of which: Re-exports of consumer goods	347	173	134	143	153	160	171	186
Non-CIS countries	1,022	1,002	869	914	894	1,003	1,074	1,194
Of which: Gold	737	717	615	656	623	725	787	891
Imports, fob	5,614	5,290	4,362	4,759	4,942	5,240	5,307	5,461
CIS countries	2,787	2,580	2,067	2,088	2,123	2,357	2,328	2,462
Of which: Energy (including for re-exports)	1,187	1,042	761	742	702	853	795	836
Non-CIS countries	2,827	2,710	2,296	2,671	2,819	2,884	2,979	2,998
Of which: Goods for re-exports	347	173	104	113	123	130	141	156
Services	-51	-331	-199	-137	-157	-204	-235	-243
Receipts	1,059	901	734	832	908	966	1,041	1,140
Payments	-1,109	-1,231	-933	-969	-1,066	-1,170	-1,276	-1,383
Income	-423	-231	-242	-220	-237	-214	-393	-483
Interest payments	-70	-72	-95	-111	-133	-106	-157	-262
Other net income	-353	-159	-147	-109	-103	-108	-236	
Current Transfers (net) 1/	2,282	2,251	1,734	1,884	2,178	2,302	2,414	2,506
Of which: Private	2,154	2,042	1,634	1,846	2,086	2,232	2,366	2,508
Capital Account	303	81	209	241	172	162	163	169
Official	292	76	204	236	189	179	180	184
Private	11	5	5	5	-17	-17	-17	-15
Financial account	751	568	757	704	1,075	1,061	1,124	1,232
Commercial banks	-57	0	-42	-346	0	0	0	0
Medium- and long-term loans (net)	86	468	429	562	510	458	456	543
Disbursement 1/	748	857	839	1,092	1,078	1,107	1,173	1,339
Of which: Loan financed PIP (excl. energy investments financed by Chin	81	82	141	204	150	201	171	264
Of which: Energy investments financed by China (PIP)	231	363	203	414	356	230	213	110
Amortization	-663	-389	-410	-530	-568	-649	-717	-796
Foreign direct investment	626	173	521	588	515	543	598	614
Portfolio investment 2/	5	6	0	0	0	0	0	0
Other (including SDR allocation)	0	0	0	0	0	0	0	0
Net short-term flows 3/	87	-84	-150	-100	50	60	70	75
Errors and omissions	312	232	0	0	0	0	0	0
Overall balance	266	-365	-98	-220	158	97	155	336
Financing	-266	365	98	220	-158	-97	-155	-336
Net international reserves	-266	365	84	163	-216	-141	-185	-366
Gross official reserves (–, increase)	-277	370	86	184	-190	-111	-157	-339
IMF	12	-6	-2	-21	-26	-30	-28	-27
Exceptional financing (including arrears)	0	0	0	30	30	30	30	30
Financing gap 1/	0	0	14	28	28	14	0	0
Memorandum items:								
GDP (in millions of U.S. dollars)	7,333	7,402	6,660	6,749	7,295	7,993	8,650	9,349
Current account balance (percent of GDP)	-15.0	-16.8	-16.0	-17.3	-14.9	-14.1	-13.1	-11.4
Current account balance excluding official transfers (percent of GDP) 1/	-16.8	-19.7	-17.5	-17.8	-16.2	-15.0	-13.6	-11.4
Growth of exports of GNFS (volume, percent)	19.2	-12.6	-4.8	7.8	0.5	6.4	5.6	7.3
Growth of imports of GNFS (volume, percent)	9.5	-1.4	-3.8	10.2	2.9	5.2	1.3	2.6
Terms of trade (goods, percentage change)	-0.9	0.7	8.4	0.8	-0.5	-0.7	-0.3	-0.1
Gold price (U.S. dollars per ounce)	1,411	1,266	1,175	1,158	1,171	1,188	1,208	1,230
Fuel Price Index (2005=100)	191.0	176.9	99.1	96.0	104.1	111.2	114.9	116.2
External Public Debt (in millions of U.S. dollars) 4/	3,156	3,440	3,829	4,361	4,772	5,125	5,451	5,802
As percent of GDP	43.7	51.0	63.0	65.3	66.1	64.7	63.6	62.7
External public debt service-to-exports ratio 4/ 5/	2.7	3.6	4.9	6.2	6.6	6.9	7.1	6.9
Gross reserves 6/	2,226	1,856	1,770	1,586	1,776	1,887	2,044	2,383
In months of subsequent year's imports	4.1	4.2	3.7	3.2	3.3	3.4	3.6	4.0

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Includes IMF and identified budget support.

2/ Includes return of KRDF investments abroad.

3/ Net short-term flows in 2012 partially reflect capital inflows to domestic enterprises.

4/ Public and publicly-guaranteed debt.

5/ Net of rescheduling.

6/ 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. NBKR Accounts, 2013–16

	2013	2014				2015				2016			
	Dec. Act.	Mar. Act.	Jun. Act.	Sep. 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	99,925	104,132	103,216	105,370	104,770	100,863	111,561	112,341	122,440	117,306	122,113	120,108	113,165
Net international reserves 2/	106,116	108,958	106,935	106,488	105,936	100,525	111,757	113,410	92,842	87,556	92,209	90,051	82,955
Long-term foreign liabilities	-6,426	-7,135	-6,812	-6,898	-7,233	-7,541	-7,331	-8,204	-8,204	-8,204	-8,204	-8,204	-8,204
Other foreign assets	235	2,309	3,093	5,780	6,068	7,879	7,135	7,135	37,801	37,954	38,108	38,261	38,414
Net domestic assets	-26,785	-36,748	-31,304	-35,795	-40,298	-44,427	-47,972	-45,782	-53,294	-49,050	-53,858	-50,567	-38,545
Net claims on general government	-6,974	-9,676	-8,503	-16,981	-18,191	-18,031	-18,547	-15,811	-17,568	-8,314	-2,864	-5,614	-10,885
Of which: Total government deposits (including foreign exchange deposits)	-8,426	-11,149	-9,974	-18,480	-19,618	-19,480	-19,991	-17,255	-18,996	-9,742	-4,293	-7,045	-12,312
Of which: Securitized government debt	1,512	1,518	1,514	1,523	1,454	1,458	1,454	1,461	1,454	1,454	1,456	1,464	1,454
Claims on commercial banks	-6,523	-3,211	-2,320	2,057	1,309	967	1,326	784	809	-1,797	-10,216	-9,042	11,599
Of which: NBKR notes	-6,635	-3,079	-3,011	-33	-1,326	-1,576	-776	-783	4,112	1,422	-7,043	-5,966	14,569
Claims of other financial corporations	0	-2	0	-4	0	0	-9,194	-2,225	-7,029	-9,304	-11,030	-5,517	-2,758
Other items net	-13,289	-23,859	-20,481	-20,867	-23,416	-27,363	-21,208	-28,530	-29,506	-29,635	-29,747	-30,393	-36,501
Reserve money	73,139	67,384	71,912	69,575	64,472	56,436	63,588	66,559	69,145	68,256	68,256	69,541	74,620
Currency in circulation	66,954	60,409	65,614	62,528	57,075	49,285	51,912	58,431	58,773	57,676	57,335	58,067	61,562
Commercial banks' reserves	6,185	6,975	6,298	7,047	7,397	7,151	7,407	8,128	10,372	10,580	10,921	11,474	13,059
Of which: Required reserves	5,322	5,772	5,744	5,912	6,693	6,799	6,902	7,367	7,561	8,109	8,139	8,887	8,999
	(Contribution to reserve money growth, in percent) 1/												
Net foreign assets	19.8	5.8	4.5	7.4	6.6	-6.1	10.5	11.7	27.4	-7.4	-0.5	-3.4	-13.4
Net domestic assets	-6.4	-13.6	-6.2	-12.3	-18.5	-6.4	-11.9	-8.5	-20.2	6.1	-0.8	3.9	21.3
Of which: Net claims on general government	-6.2	-3.7	-2.1	-13.7	-15.3	0.2	-0.6	3.7	1.0	13.4	21.3	17.3	9.7
Reserve money	13.4	-7.9	-1.7	-4.9	-11.9	-12.5	-1.4	3.2	7.2	-1.3	-1.3	0.6	7.9
Of which: Currency in circulation	13.5	-8.9	-1.8	-6.1	-13.5	-12.1	-8.0	2.1	2.6	-1.6	-2.1	-1.0	4.0
Memorandum items:													
Reserve money growth (12-month change, in percent)	13.4	5.8	7.5	0.9	-11.9	-16.2	-11.6	-4.3	7.2	20.9	7.3	4.5	7.9
Gross International Reserves (in millions of U.S. dollars)	2,226	2,076	2,125	2,019	1,856	1,627	1,862	1,824	1,770	1,685	1,738	1,696	1,586
Net international reserves (in millions of U.S. dollars)	2,035	1,884	1,937	1,828	1,669	1,496	1,576	1,521	1,161	1,080	1,138	1,102	999
Exchange rate, som per U.S. dollar, end of period	49.2	54.5	52.1	54.4	58.9	62.0	65.2	68.3	71.5	71.9	72.2	72.6	72.9

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

2/ Change in composition of the NIR in line with safeguards assessment recommendation.

Table 4. Monetary Survey 2013–16

	2013	2014	2015				2016			
	Dec	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.
	Act.	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.
(In millions of soms)										
Net foreign assets	105,724	108,590	99,899	110,097	116,736	123,820	112,472	111,034	102,753	89,317
Net domestic assets	15,180	15,955	19,853	15,680	18,959	14,470	30,865	32,303	49,543	67,385
Domestic credit	48,883	61,317	71,529	70,002	77,193	77,423	98,313	104,164	102,640	100,833
Net claims on general government	-8,308	-20,831	-20,479	-20,960	-18,397	-19,920	-10,857	-6,096	-8,114	-13,237
Credit to the rest of the economy 1/	57,191	82,148	92,008	90,963	95,590	97,343	109,170	110,260	110,753	114,071
Of which: In foreign exchange	29,205	45,464	48,368	46,922	51,148	51,112	56,231	55,689	54,831	58,755
Other items net	-33,704	-45,363	-51,676	-54,322	-58,234	-62,952	-67,449	-71,861	-53,097	-33,448
Broad money (M2X)	120,903	124,544	119,752	125,777	135,695	138,290	143,337	143,337	152,296	156,703
Of which:										
Broad money, excluding foreign exchange deposits (M2)	90,963	82,386	72,586	78,984	81,119	83,121	85,071	85,755	90,410	92,039
Currency held by the public	61,907	51,904	45,011	51,626	53,835	54,279	53,239	52,898	53,547	56,711
Total domestic currency deposit liabilities	29,055	30,482	27,575	27,358	27,284	28,842	31,832	32,857	36,863	35,327
(Contribution to broad money growth, in percent) 2/										
Net foreign assets	15.9	2.4	-7.0	1.2	6.5	12.2	-8.2	-9.2	-15.2	-24.9
Net domestic assets	6.8	0.6	3.1	-0.2	2.4	-1.2	11.9	12.9	25.4	59.8
Domestic credit	10.7	10.3	8.2	7.0	12.7	12.9	15.1	19.3	18.2	63.5
Net claims on general government	-4.7	-10.4	0.3	-0.1	2.0	0.7	6.6	10.0	8.5	-9.7
Credit to the rest of the economy	15.4	20.6	7.9	7.1	10.8	12.2	8.6	9.3	9.7	73.1
Other items (net)	-3.9	-9.6	-5.1	-7.2	-10.3	-14.1	-3.3	-6.4	7.1	-3.6
Broad money (M2X)	22.8	3.0	-3.8	1.0	9.0	11.0	3.6	3.6	10.1	13.3
Of which:										
Broad money, excluding foreign exchange deposits (M2)	13.7	-7.1	-7.9	-2.7	-1.0	0.6	1.4	1.9	5.3	6.4
Currency held by the public	7.5	-8.3	-5.5	-0.2	1.6	1.9	-0.8	-1.0	-0.5	1.8
Total deposit liabilities	6.2	1.2	-2.3	-2.5	-2.6	-1.3	2.2	2.9	5.8	12.6
Memorandum items:										
Broad money (M2X) (12-month change, in percent)	22.8	3.0	0.9	0.5	10.0	11.0	19.7	14.0	12.2	13.3
Credit to the rest of the economy (12-month change, in percent)	36.1	43.6	43.1	31.3	27.0	18.5	18.7	21.2	15.9	17.2
Credit growth FX portion in dollar terms (12-month change, in percent)	28.4	30.7	22.7	13.5	0.4	…	…	…	…	…
Credit growth FX portion in som term(12-month change, in percent)	33.9	55.7	43.9	34.2	26.7	…	…	…	…	…
Credit growth som protion (12-month change, in percent)	38.4	31.1	42.2	28.3	27.4	…	…	…	…	…
Real credit growth, (12-month change, in percent)	32.1	33.2	34.6	26.7	20.6	…	…	…	…	…
Credit growth in constant exchange rate - DEC 2013 (12-month change, in percent)	33.1	30.9	32.5	21.1	13.6	…	…	…	…	…
Credit to the rest of the economy (in percent of GDP)	16.1	20.7	21.2	20.9	22.0	22.5	22.5	22.8	22.9	23.5
M2X velocity 3/	2.9	3.2	3.6	3.5	3.2	3.1	3.4	3.4	3.2	3.1
M2X multiplier	1.7	1.9	2.1	2.0	2.0	2.0	2.1	2.1	2.2	2.1
Dollarization indicators (in percent)										
Loan dollarization	51.1	55.3	52.6	51.6	53.5	52.5	51.5	50.5	49.5	51.5
Deposit dollarization	50.8	58.0	63.1	63.1	66.7	65.7	64.7	63.7	62.7	64.7

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ An MFI became a bank in March 2015.

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

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

Table 5. General Government Finances, 2013–18

(In millions of som) 1/

	2013	2014	2015					2016					2017	2018
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Year	Year
	Act.	Act.	Act.	Act.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	122,394	142,809	28,868	43,490	35,312	54,664	162,333	33,612	42,423	45,269	52,872	174,177	190,081	212,115
Taxes	72,842	82,639	18,272	19,683	21,022	28,032	87,009	19,639	22,859	28,611	35,982	107,091	119,793	135,156
Taxes on income, profits, and capital gains	17,221	19,635	6,013	5,136	5,058	6,731	22,937	5,773	5,234	6,261	8,390	25,659	28,261	32,805
Payable by individuals	7,545	8,542	2,109	2,240	2,701	1,713	8,762	2,750	2,493	2,982	3,996	12,221	15,631	18,167
Payable by corporations and other enterprises	11,257	13,415	3,317	2,291	1,737	3,229	10,574	3,045	2,367	2,617	3,682	11,710	10,834	12,930
Taxes on property	2,065	2,210	588	605	620	1,789	2,284	-22	374	662	712	2,544	2,802	3,113
Property Tax	1,176	1,290	556	509	804	415	1,410	572	519	621	832	1,582	1,744	1,950
Land Tax	888	920	305	282	555	267	874	356	323	386	517	961	1,058	1,163
Taxes on goods and services	40,667	46,260	10,157	11,735	12,226	16,605	50,722	11,059	13,558	15,406	18,568	58,591	65,254	72,813
General taxes on goods and services	36,577	39,926	8,654	9,945	10,089	13,883	42,571	9,284	11,436	12,591	14,775	48,086	53,608	59,814
Value-added taxes	30,083	32,663	6,962	8,129	8,213	10,127	33,431	7,242	9,120	10,001	11,956	38,319	42,881	47,828
Excises	4,090	6,334	1,503	1,790	2,136	2,722	8,152	1,775	2,122	2,815	3,792	10,505	11,646	12,999
Taxes on international trade and transactions	11,886	13,771	1,378	1,727	2,792	3,518	9,415	1,833	3,185	5,888	7,610	18,515	21,518	24,303
Other Taxes	1,003	763	167	577	143	763	1,650	401	364	435	583	1,783	1,957	2,122
Social contributions	20,454	22,058	5,128	6,147	5,674	6,411	23,361	5,542	6,798	6,064	6,838	25,242	26,579	30,013
Grants	8,631	14,362	286	2,119	2,512	13,773	18,690	3,864	5,734	4,539	4,322	18,459	19,372	17,343
Program grants	5,615	11,376	0	1,757	1,856	3,067	6,681	0	1,851	637	400	2,889	6,909	5,432
Project grants 2/	3,016	2,986	286	362	656	10,706	12,010	3,864	3,883	3,902	3,921	15,570	12,463	11,911
Other revenue	20,466	23,750	5,182	15,540	6,103	6,448	33,273	4,568	7,031	6,055	5,730	23,384	24,338	29,603
Expense	110,631	120,471	25,911	32,832	29,249	48,510	136,503	33,514	38,519	33,456	39,736	145,225	151,918	162,785
Compensation of employees	31,660	35,288	7,461	11,243	7,857	13,685	40,246	11,959	13,983	10,071	11,464	47,477	46,328	47,970
Wages and salaries	27,940	31,292	6,613	9,942	6,993	12,002	35,550	10,557	12,344	8,892	10,121	41,914	41,086	42,326
Social contributions	3,720	3,995	848	1,301	863	1,683	4,696	1,401	1,639	1,180	1,343	5,563	5,242	5,644
Purchases/use of goods and services	30,797	29,655	4,764	7,438	7,240	17,294	36,736	7,112	8,816	8,597	11,637	36,161	37,850	39,636
Consumption of fixed capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest	2,992	3,466	1,021	890	1,192	1,131	4,236	1,115	1,168	1,181	1,210	4,674	5,650	5,902
Foreign interest	1,668	2,230	742	578	849	847	3,016	940	945	950	954	3,789	4,428	5,044
Domestic interest	1,324	1,236	279	312	344	284	1,219	174	223	232	255	885	722	658
Subsidies	2,532	3,359	1,147	961	779	713	3,601	1,081	1,129	746	833	3,789	4,216	4,712
To public corporations	2,532	3,359	1,147	961	779	713	3,601	1,081	1,129	746	833	3,789	4,216	4,712
To private entities	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Grants	158	1,226	169	172	292	1,980	2,612	279	280	281	282	1,121	575	365
to foreign governemnts	0	0	0	0	0	0	0	0	0	0	0	0	0	0
to international organizations	158	200	62	47	108	-36	181	49	49	49	49	194	214	239
to other general government units	0	1,026	107	124	184	2,016	2,431	230	231	232	233	927	361	125
Social benefits	42,491	47,476	11,348	12,128	11,888	13,707	49,072	11,970	13,144	12,580	14,310	52,003	57,299	64,200
Social Assistance	9,598	9,966	2,300	2,743	2,594	1,373	9,011	2,763	2,890	1,891	2,119	9,663	10,654	11,907
Social security benefits	32,894	37,510	9,048	9,385	9,294	12,334	40,061	9,207	10,254	10,688	12,190	42,340	46,645	52,293
Gross operating balance	11,762	22,338	2,957	10,658	6,062	6,154	25,830	98	3,904	11,813	13,137	28,952	38,163	49,330
Net acquisition of nonfinancial assets	24,910	23,109	4,051	6,873	9,727	20,483	41,135	12,232	12,653	13,131	12,735	50,751	45,031	40,040
Acquisition of nonfinancial assets	25,046	23,158	4,051	6,922	9,776	20,506	41,255	12,258	12,677	13,165	12,786	50,886	45,180	40,207
Domestically financed	7,167	8,940	1,170	3,779	5,649	6,776	17,374	3,183	3,556	3,999	3,575	14,314	10,800	11,842
Foreign financed 2/	17,879	14,218	2,881	3,142	4,127	13,730	23,881	9,075	9,120	9,166	9,211	36,572	34,380	28,365
Disposals of nonfinancial assets	-136	-49	0	-49	-49	-23	-121	-26	-24	-34	-51	-135	-149	-167
Net lending/borrowing	-13,147	-771	-1,094	3,785	-3,665	-14,330	-15,304	-12,134	-8,749	-1,318	402	-21,799	-6,868	9,291
Net acquisition of financial assets	3,921	23,274	425	2,911	-3,155	6,050	6,232	-3,502	1,027	8,316	10,104	15,946	23,136	31,148
Domestic	3,921	23,274	425	2,911	-3,155	6,050	6,232	-3,502	1,027	8,316	10,104	15,946	23,136	31,148
Currency and deposits	4,439	8,728	243	1,708	-3,456	-392	-1,897	-9,159	-4,630	2,659	4,447	-6,683	8,216	15,405
Loans	-504	14,559	185	1,207	305	6,446	8,142	5,661	5,661	5,661	5,661	22,642	14,935	15,758
Sales of equity (privatization proceeds)	-13	-13	-3	-3	-3	-3	-13	-3	-3	-3	-3	-14	-14	-15
Foreign	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	18,288	24,045	-257	2,136	510	19,146	21,536	8,632	9,776	9,635	9,703	37,745	30,005	21,858
Domestic	219	-465	0	0	0	0	0	0	0	0	0	0	0	0
Foreign	18,069	24,509	-257	2,136	510	19,146	21,536	8,632	9,776	9,635	9,703	37,745	30,005	21,858
Program loans	5,320	3,598	0	1,336	0	2,483	3,819	0	1,119	953	997	3,069	3,145	1,179
Public investment program loans	14,863	23,867	816	2,019	1,733	17,877	22,445	11,087	11,124	11,161	11,198	44,571	37,213	32,337
Amortization	-2,113	-2,955	-1,072	-1,219	-1,222	-1,214	-4,728	-2,455	-2,468	-2,480	-2,492	-9,895	-10,353	-11,658

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ GFSM 2001 classification is used from 2014 onwards. Retroactive reclassification was not possible due to lack of data.

2/ Including grants in-kind from EEU accession.

Table 6. General Government Finances, 2013–18

(In percent of GDP) 1/

	2013	2014	2015					2016					2017	2018
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Year	Year
	Act.	Act.	Act.	Act.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	34.4	35.9	6.6	10.0	8.1	12.6	37.4	6.9	8.7	9.3	10.8	35.7	35.4	35.3
Taxes	20.5	20.8	4.2	4.5	4.8	6.5	20.0	4.0	4.7	5.9	7.4	22.0	22.3	22.5
Taxes on income, profits, and capital gains	4.8	4.9	1.4	1.2	1.2	1.6	5.3	1.2	1.1	1.3	1.7	5.3	5.3	5.5
Payable by individuals	2.1	2.2	0.5	0.5	0.6	0.4	2.0	0.6	0.5	0.6	0.8	2.5	2.9	3.0
Payable by corporations and other enterprises	3.2	3.4	0.8	0.5	0.4	0.7	2.4	0.6	0.5	0.5	0.8	2.4	2.0	2.2
Taxes on property	0.6	0.6	0.1	0.1	0.1	0.4	0.5	0.0	0.1	0.1	0.1	0.5	0.5	0.5
Taxes on goods and services	11.4	11.6	2.3	2.7	2.8	3.8	11.7	2.3	2.8	3.2	3.8	12.0	12.1	12.1
General taxes on goods and services	10.3	10.0	2.0	2.3	2.3	3.2	9.8	1.9	2.3	2.6	3.0	9.9	10.0	10.0
Value-added taxes	8.5	8.2	1.6	1.9	1.9	2.3	7.7	1.5	1.9	2.1	2.5	7.9	8.0	8.0
Turnover and other taxes on goods and service	1.8	1.8	0.0	0.0	0.0	0.0	2.1	0.0	0.0	0.0	0.0	2.0	2.0	2.0
Excises	1.2	1.6	0.3	0.4	0.5	0.6	1.9	0.4	0.4	0.6	0.8	2.2	2.2	2.2
Taxes on international trade and transactions	3.3	3.5	0.3	0.4	0.6	0.8	2.2	0.4	0.7	1.2	1.6	3.8	4.0	4.0
Other Taxes	0.3	0.2	0.0	0.1	0.0	0.2	0.4	0.1	0.1	0.1	0.1	0.4	0.4	0.4
Social contributions	5.8	5.6	1.2	1.4	1.3	1.5	5.4	1.1	1.4	1.2	1.4	5.2	4.9	5.0
Grants	2.4	3.6	0.1	0.5	0.6	3.2	4.3	0.8	1.2	0.9	0.9	3.8	3.6	2.9
Program grants	1.6	2.9	0.0	0.4	0.4	0.7	1.5	0.0	0.4	0.1	0.1	0.6	1.3	0.9
Project grants 2/	0.8	0.8	0.1	0.1	0.2	2.5	2.8	0.8	0.8	0.8	0.8	3.2	2.3	2.0
Other revenue	5.8	6.0	1.2	3.6	1.4	1.5	7.7	0.9	1.4	1.2	1.2	4.8	4.5	4.9
Expense	31.1	30.3	6.0	7.6	6.7	11.2	31.4	6.9	7.9	6.9	8.2	29.8	28.3	27.1
Compensation of employees	8.9	8.9	1.7	2.6	1.8	3.2	9.3	2.5	2.9	2.1	2.4	9.7	8.6	8.0
Wages and salaries	7.9	7.9	1.5	2.3	1.6	2.8	8.2	2.2	2.5	1.8	2.1	8.6	7.6	7.0
Social contributions	1.0	1.0	0.2	0.3	0.2	0.4	1.1	0.3	0.3	0.2	0.3	1.1	1.0	0.9
Purchases/use of goods and services	8.7	7.5	1.1	1.7	1.7	4.0	8.5	1.5	1.8	1.8	2.4	7.4	7.0	6.6
Consumption of fixed capital	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	0.0
Interest	0.8	0.9	0.2	0.2	0.3	0.3	1.0	0.2	0.2	0.2	0.2	1.0	1.1	1.0
Foreign interest	0.5	0.6	0.2	0.1	0.2	0.2	0.7	0.2	0.2	0.2	0.2	0.8	0.8	0.8
Domestic interest	0.4	0.3	0.1	0.1	0.1	0.1	0.3	0.0	0.0	0.0	0.1	0.2	0.1	0.1
Subsidies	0.7	0.8	0.3	0.2	0.2	0.2	0.8	0.2	0.2	0.2	0.2	0.8	0.8	0.8
To public corporations	0.7	0.8	0.3	0.2	0.2	0.2	0.8	0.2	0.2	0.2	0.2	0.8	0.8	0.8
To private entities	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	0.0
Grants	0.0	0.3	0.0	0.0	0.1	0.5	0.6	0.1	0.1	0.1	0.1	0.2	0.1	0.1
to foreign governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
to international organizations	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
to other general government units	0.0	0.3	0.0	0.0	0.0	0.5	0.6	0.0	0.0	0.0	0.0	0.2	0.1	0.0
Social benefits	12.0	12.0	2.6	2.8	2.7	3.2	11.3	2.5	2.7	2.6	2.9	10.7	10.7	10.7
Social assistance	2.7	2.5	0.5	0.6	0.6	0.3	2.1	0.6	0.6	0.4	0.4	2.0	2.0	2.0
Social security benefits	9.3	9.4	2.1	2.2	2.1	2.8	9.2	1.9	2.1	2.2	2.5	8.7	8.7	8.7
Other Expenses	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	0.0
Gross operating balance	3.3	5.6	0.7	2.5	1.4	1.4	5.9	0.0	0.8	2.4	2.7	5.9	7.1	8.2
Net acquisition of nonfinancial assets	7.0	5.8	0.9	1.6	2.2	4.7	9.5	2.5	2.6	2.7	2.6	10.4	8.4	6.7
Acquisition of nonfinancial assets	7.0	5.8	0.9	1.6	2.3	4.7	9.5	2.5	2.6	2.7	2.6	10.4	8.4	6.7
Domestically financed	2.0	2.3	0.3	0.9	1.3	1.6	4.0	0.7	0.7	0.8	0.7	2.9	2.0	2.0
Foreign financed 2/	5.0	3.6	0.7	0.7	1.0	3.2	5.5	1.9	1.9	1.9	1.9	7.5	6.4	4.7
Disposals of nonfinancial assets	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	0.0
Net lending/borrowing	-3.7	-0.2	-0.3	0.9	-0.8	-3.3	-3.5	-2.5	-1.8	-0.3	0.1	-4.5	-1.3	1.5
Net acquisition of financial assets	1.1	5.9	0.1	0.7	-0.7	1.4	1.4	-0.7	0.2	1.7	2.1	3.3	4.3	5.2
Domestic	1.1	5.9	0.1	0.7	-0.7	1.4	1.4	-0.7	0.2	1.7	2.1	3.3	4.3	5.2
Currency and deposits	1.2	2.2	0.1	0.4	-0.8	-0.1	-0.4	-1.9	-1.0	0.5	0.9	-1.4	1.5	2.6
Loans	-0.1	3.7	0.0	0.3	0.1	1.5	1.9	1.2	1.2	1.2	1.2	4.6	2.8	2.6
Sales of equity (privatization proceeds)	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	0.0
Foreign	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	0.0
Net incurrence of liabilities	5.1	6.1	-0.1	0.5	0.1	4.4	5.0	1.8	2.0	2.0	2.0	7.7	5.6	3.6
Domestic	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	0.0
Foreign	5.1	6.2	-0.1	0.5	0.1	4.4	5.0	1.8	2.0	2.0	2.0	7.7	5.6	3.6
Program loans	1.5	0.9	0.0	0.3	0.0	0.6	0.9	0.0	0.2	0.2	0.2	0.6	0.6	0.2
Public investment program loans	4.2	6.0	0.2	0.5	0.4	4.1	5.2	2.3	2.3	2.3	2.3	9.1	6.9	5.4
Amortization	-0.6	-0.7	-0.2	-0.3	-0.3	-0.3	-1.1	-0.5	-0.5	-0.5	-0.5	-2.0	-1.9	-1.9

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ GFSM 2001 classification is used from 2014 onwards. Retroactive reclassification was not possible due to lack of data.

2/ Including grants in-kind from EEU accession.

Table 7a. Borrowing Plans 2015
(December 4–31, 2015)

PPG external debt	Volume of new debt in 2015		PV of new debt in 2015 (program purposes)		PV of new debt in 2015 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
By sources of debt financing	**84.4**	**100**	**64.7**	**100**	**65.1**	**100**
Concessional debt, of which	**54.4**	**64**	**34.7**	**54**	**34.7**	**53**
Multilateral debt	54.4	64	34.7	54	34.7	53
Bilateral debt	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	**30.0**	**36**	**30.0**	**46**	**30.4**	**47**
Semi-concessional	0.0	0	0.0	0	0.0	0
Commercial terms	30.0	36	30.0	46	30.4	47
By Creditor Type	**84.4**	**100**	**64.7**	**100**	**65.1**	**100**
Multilateral	84.4	100	64.7	100	65.1	100
Bilateral - Paris Club	0.0	0	0.0	0	0.0	0
Bilateral - Non-Paris Club	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0
Uses of debt financing	**84.4**	**100**	**64.7**	**100**	**65.1**	**100**
Infrastructure	84.4	100	64.7	100	65.1	100
Social Spending	0.0	0	0.0	0	0.0	0
Budget Financing	0.0	0	0.0	0	0.0	0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Memo Items						
Indicative projections						
Year 2	**1.0**		**1.0**		**0.5**	
Year 3	**0.0**		**0.0**		**0.0**	

Table 7b. Type of the New External Debt, 2015
(U.S. dollar million, December 4–31, 2015)

By the type of interest rate	
Fixed Interest Rate	80.0
Variable Interest Rate	4.4
Unconventional Loans	0.0
By currency	
USD denominated loans	84.4
Loans denominated in other currency	0.0

Table 7c. Borrowing Plans 2016
(January 1–December 31, 2016)

PPG external debt	Volume of new debt in 2016		PV of new debt in 2016 (program purposes)		PV of new debt in 2016 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
By sources of debt financing	**429.2**	**100**	**226.1**	**100**	**226.1**	**100**
Concessional debt, of which	**429.2**	**100**	**226.1**	**100**	**226.1**	**100**
Multilateral debt	294.9	69	175.2	77	175.2	77
Bilateral debt	134.3	31	50.9	23	50.9	23
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	**0.0**	**0**	**0.0**	**0**	**0.0**	**0**
Semi-concessional	0.0	0	0.0	0	0.0	0
Commercial terms	0.0	0	0.0	0	0.0	0
By Creditor Type	**429.2**	**100**	**226.1**	**100**	**226.1**	**100**
Multilateral	294.9	69	175.2	77	175.2	77
Bilateral - Paris Club	114.3	27	38.0	17	38.0	17
Bilateral - Non-Paris Club	20.0	5	13.0	6	13.0	6
Other	0.0	0	0.0	0	0.0	0
Uses of debt financing	**429.2**	**100**	**226.1**	**100**	**226.1**	**100**
Infrastructure	429.2	100	226.1	100	226.1	100
Social Spending	0.0	0	0.0	0	0.0	0
Budget Financing	0.0	0	0.0	0	0.0	0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Memo Items						
Indicative projections						
Year 2	**0.0**		**0.0**		**0.0**	
Year 3	**0.0**		**0.0**		**0.0**	

Table 7d. Type of the New External Debt, 2016
(U.S. dollar million, January 1–December 31, 2016)

By the type of interest rate	
Fixed Interest Rate	348.9
Variable Interest Rate	80.3
Unconventional Loans	0.0
By currency	
USD denominated loans	429.2
Loans denominated in other currency	0.0

Table 8. Selected Financial Soundness Indicators, 2013–15

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Jul-15	Aug-15	Sep-15
Capital Adequacy													
Regulatory capital to risk weighted assets	25.9	24.6	23.9	25.0	23.9	22.1	22.5	21.8	20.7	20.9	20.9	21.2	21.5
Tier 1 capital to risk weigted assets	23.7	21.4	19.9	19.9	20.6	18.2	17.7	16.4	17.8	17.6	17.4	17.3	17.4
Capital to total assets	17.6	16.9	17.0	16.9	16.9	16.3	16.7	16.2	15.4	15.7	15.6	15.6	15.7
Liquidity													
Liquidity ratio	77.7	68.4	66.5	70.0	67.3	56.8	55.1	65.1	67.5	64.7	62.4	66.4	70.5
Excess reserves/total reserves	39.0	23.2	19.5	13.7	16.0	7.4	7.3	8.3	4.2	20.5	12.7	16.8	7.2
Asset quality													
Nonperforming loans/total loans	6.6	5.9	5.7	5.5	5.4	4.6	4.2	4.5	5.4	5.2	5.3	5.6	6.0
Foreign currency nonperforming loans/total foreign currency loans	4.7	4.2	4.0	4.0	4.1	3.5	3.1	3.4	4.1	3.8	3.7	4.0	…
Som nonperforming loans/ total som loans	1.9	1.7	1.7	1.5	1.3	1.1	1.1	1.1	1.3	1.5	1.6	1.6	…
Loan-loss provisioning/nonperforming loans	63.0	62.9	63.2	59.6	59.8	61.0	61.3	58.8	53.7	54.0	53.4	53.5	54.1
Nonperforming assets/total assets	2.8	2.9	2.7	2.7	2.8	2.5	2.4	2.6	3.1	3.0	3.1	3.2	3.4
Restructured Loans	4.7	3.7	3.4	2.4	2.1	1.7	1.9	2.2	3.6	4.3	5.0	5.0	…
Prolonged Loans	4.0	3.7	3.4	3.4	3.8	3.5	3.4	3.0	2.4	2.9	3.2	3.1	…
Earnings and profitability													
Return on equity	13.7	15.2	17.1	18.0	15.7	16.0	18.6	18.7	15.3	1.6	1.6	1.8	1.8
Return on assets	2.3	2.5	2.7	2.8	2.4	2.4	2.7	2.6	2.2	11.5	11.6	12.9	13.4
Net interest margin	8.3	8.5	8.6	8.1	7.9	8.1	8.4	8.3	8.3	8.3	8.1	8.2	8.1
Spread	7.8	8.1	8.2	7.7	7.4	7.7	8.0	7.9	7.7	7.8	7.4	7.6	7.5
Income from services and commission fee/total income	7.5	15.9	16.2	16.4	12.0	13.1	13.9	14.0	8.1	8.7	8.7	8.3	8.0
Loans and deposits													
Loans/deposits	92.4	94.2	92.7	93.2	100.1	104.2	109.4	109.7	118.3	117.5	113.2	112.0	111.5
Loans/total assets	47.0	49.2	47.9	48.8	52.5	54.9	57.3	58.3	57.7	58.1	57.7	57.5	56.8
Foreign currency exposure													
Foreign currency exposure	-604.8	-446.3	612.2	1053.6	780.3	1669.8	2218.1	1816.0	626.0	242.4	219.9	710.1	1704.8
Loans/deposits (in foreign currency)	97.5	93.0	88.5	97.5	95.6	101.3	104.5	107.9	100.3	95.7	91.6	91.4	90.0
Share of foreign currency deposits in total deposits 1/	50.9	51.8	53.9	51.2	57.0	53.7	58.0	58.6	64.1	64.5	65.0	66.3	68.3
Share of foreign currency loans in total loans	53.7	51.1	51.5	53.6	54.4	52.2	55.4	57.6	54.3	52.6	52.6	54.2	55.2
Memorandum items:													
Assets to GDP	29.1	29.8	31.5	31.5	32.8	33.4	33.7	33.9	37.6	36.4	36.4	37.5	38.9
Deposits to GDP	14.8	15.6	16.3	16.5	17.2	17.6	17.7	18.0	18.3	18.0	18.6	19.2	19.8

Source: National Bank of the Kyrgyz Republic.

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

Table 9. Proposed Reviews and Disbursements Under the Three-Year Extended Credit Facility Arrangement

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

Source: International Monetary Fund.

Table 10. Indicators of Capacity to Repay the Fund, 2015–20 1/

	2015	2016	2017	2018	2019	2020
Fund obligations based on existing credit						
(In millions of SDRs)						
Principal	11.0	15.0	18.3	20.7	17.5	18.7
Charges and interest	0.0	0.0	0.0	0.0	0.2	0.1
Fund obligations based on existing and prospective credit						
(In millions of SDRs)						
Principal	11.0	15.0	18.3	20.7	17.5	18.7
Charges and interest	0.0	0.0	0.0	0.0	0.3	0.3
Total obligations based on existing and prospective credit						
In millions of SDRs	11.0	15.0	18.3	20.7	17.8	19.0
In millions of U.S. dollars	15.4	21.2	26.1	29.6	25.7	27.6
In percent of gross international reserves	0.9	1.3	1.5	1.6	1.3	1.2
In percent of exports of goods and services	0.6	0.7	0.9	0.9	0.7	0.7
In percent of debt service 2/	11.5	11.7	13.2	13.4	10.5	10.7
In percent of GDP	0.2	0.3	0.4	0.4	0.3	0.3
In percent of quota	12.4	16.9	20.6	23.3	20.1	21.4
Outstanding Fund credit 2/						
In millions of SDRs	135.82	139.88	140.64	129.47	111.95	93.24
In billions of U.S. dollars	0.2	0.2	0.2	0.2	0.2	0.1
In percent of gross international reserves	10.8	12.6	11.4	9.9	7.9	5.7
In percent of exports of goods and services	7.0	6.8	6.7	5.8	4.7	3.6
In percent of debt service 2/	142.0	109.4	101.8	83.5	66.1	52.6
In percent of GDP	2.9	2.9	2.7	2.3	1.9	1.5
In percent of quota	153.0	157.5	158.4	145.8	126.1	105.0
Net use of Fund credit (in millions of SDRs)	8.0	4.1	0.8	(11.2)	(17.5)	(18.7)
Disbursements	19.0	19.0	19.0	9.5	-	-
Repayments and Repurchases	11.0	15.0	18.3	20.7	17.5	18.7
Memorandum items:						
Nominal GDP (in millions of U.S. dollars)	6,660	6,749	7,295	7,993	8,650	9,349
Exports of goods and services (in millions of U.S. dollars)	2,739	2,899	2,977	3,196	3,430	3,756
Gross International Reserves (in millions of U.S. dollars)	1,757	1,573	1,763	1,876	2,033	2,372
Debt service (in millions of U.S. dollars) 2/	134.2	180.7	196.7	221.9	244.2	257.8
Quota (millions of SDRs)	88.8	88.8	88.8	88.8	88.8	88.8

Sources: IMF staff estimates and projections.

1/ Assumes seven semi-annual disbursements under the ECF facility of 75 percent of quota (SDR 66.6 million) starting in April 2015. PRGT interest waived through end-2016. RCF interest set at zero percent and no longer subject to biannual Board reviews. The following rates are assumed beyond 2016: projected interest charges between 2017 and 2018 are based on 0/0.25/0.25 percent per annum for the ECF, SCF, and ESF, respectively, and beyond 2018 0.25/0.5/0.25 percent per annum.

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

Table 11. Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, June 2015–December 2016

	2015							2016			
	June				September	December		March	June	September	December
	QPC				IT	QPC		IT	QPC	IT	QPC
	Prog	Adj	Actual	Status	CR15/113	CR15/113	Revised				
Quantitative performance criteria 1/											
1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars)	1,371	1,327	1,680	Met	1,349	1,325	1,103	948	930	894	791
2. Ceiling on net domestic assets of the NBKR (eop stock)	-10,127	-11,948	-25,505	Met	-10,583	-14,200	-24,195	-20,222	-23,670	-20,209	-8,852
3. Ceiling on cumulative overall deficit of the general government 2/	19,441	9,878	-2,690	Met	22,189	18,062	15,304	-12,134	-20,883	-22,201	-21,799
4 a. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/	0	0	0	Met	0	0	na	na	na	na	na
4 b. Present Value of new external debt contracted or guranteed (in millions of US do	na	na	na		na	na	64.7	226.1	226.1	226.1	226.1
5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	Met	0	0	0	0	0	0	0
Indicative Targets 1/											
1. Ceiling on reserve money	72,121	72,121	65,063	Met	70,313	65,279	69,145	68,256	68,256	69,541	74,620
2. Cumulative floor on state government tax collections 2/	36,821	36,821	37,955	Met	61,345	92,361	87,009	19,639	42,498	71,109	107,091
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit and Monthly Social Benefit programs 2/	2,161		2,161	Met	3,286	4,412	4,412	1189	2,377	3,615	4,853
4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/	na		na		na	na	30	0	0	0	0

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ As defined in the TMU.

2/ Cumulative from the beginning of the year.

3/ External debt contracted or guaranteed with a grant element of less than 35 percent.

Table 12. Prior Action and Structural Benchmarks Under the Extended Credit Facility

Measures	Timing	Status
Prior Action		
Appoint an auditor for the DEBRA audit		
Structural Benchmarks		
I. FISCAL POLICY		
Elaborate a MTDS including the following criteria: (i) restrict borrowing to projects which enhance growth and promote social developments (ii) maintain debt at sustainable levels, and (iii) ensure that borrowing is anchored in the medium-term fiscal framework and is consistent with macroeconomic stability.	End-April 2015	**Met.** The department of public debt of the MOF elaborated a MTDS, which was approved by the government decree #424 dated June 29, 2015 to improve debt management.
Undertake a review of the public investment framework in cooperation with development partners and line ministries to identify gaps and then define an action plan.	End-April, 2016	**Rescheduled.** An IMF TA mission will undertake a PIMA during the first half of 2016.
Submit to parliament a draft tax law on (i) strengthening the VAT by reducing the number of exemptions, (ii) gradually phasing out the sales tax; (iii) gradually limiting the use of the patent system; (iv) adopting a simplified recordkeeping and reporting requirements.	End-June, 2015	**Partially Met.** In August, the government submitted a draft law to parliament on strengthening the VAT by reducing the number of exemptions on processing food and agriculture products, and gradually phasing out the sales tax. Additionally, in June, the government issued a resolution to gradually limit the use of patent system from 125 to 110 activities and in May, a law was adopted to simplify recordkeeping and reporting requirements by switching the monthly reporting requirements to quarterly for small businesses.
Draw an action plan for the reform of public sector personnel and remuneration policy to reduce the wage bill as a share of GDP.	End-May, 2016	**Rescheduled.** An IMF TA mission will take place in the first half of 2016 to identify an action plan for the reform of the public sector employment/wage policy.
Revise the MDTS in light of the outcome of the new DSA.	End-July, 2016	**New**
Reorganize the institutional structure of the tax service reducing duplication of functions with respect to interregional tax service departments.	End-April, 2015	**Met.** The STS streamlined its structure by eliminating the 3 interregional offices, leaving operational the headquarters' office and the district offices.
Select a provider for integrating the automated national treasury system with the interbank payment system.	End-September, 2015	**Met.** The government selected the "Info Systema" company as a provider for integrating the automated national treasury system with the interbank payment system in July, 2015.
Conduct a review of subsidies and draw-up an action plan to reduce them.	End-June, 2016	**New**
Sign a Memorandum of Co-operation with TIKA, the Turkish Cooperation and Coordination Agency, to develop new Financial Management Information System.	End-June, 2016	**New**
Review the methodology for setting power tariffs to ensure economic soundness and adjust accordingly the roadmap for increasing tariffs.	End-June, 2016	**New**
II. FINANCIAL SECTOR		
Finalize the audit of DEBRA.	End-October, 2015	**Not met.**
Set higher reserve requirements for foreign exchange deposits than for domestic currency deposits.	End-October, 2015	**Met.** The reserve requirement for foreign currency deposits is 9.5 percent, while for som deposits is 8.5 percent.
Submit to parliament a draft amendment to the code for administrative responsibility increasing the penalty for unlicensed foreign exchange activity to som 50,000 for individuals, som 100,000 for corporate officers, and som 200,000 for legal entities.	End-May, 2015	**Met.** The NBKR submitted amendments to the code for administrative responsibility to parliament in May 2015.
Issue a decision to harmonize the standard minimum capital requirement by gradually raising banks' paid-in capital in three steps by 2017.	End-May, 2015	**Met.** The NBRK issued a decision to harmonize capital requirements on March 11, 2015 which became effective on March 26. 2015. All the banks have minimum capital above som 300 million as July 1, 2015. The minimum capital requirement will increase to som 400 million, as of July 1, 2016 and to som 600 as of July 1, 2017.
Resubmit to Parliament amendments to the code for administrative responsibility aimed at increasing penalties for unlicensed foreign exchange activity.	End-February, 2016	**New**
Submit a new draft AML/CFT law that reflects all the recommendations provided by the Fund as well as other donors to the new Parliament.	End-April, 2016	**New**
Finalize the DEBRA audit.	End-March, 2016	**New**
Enact and publish in the Official Gazette ("Erkin-Too") the banking law and the supporting law on "enactment of the banking law".	End-September 2016	**New**
Develop crisis preparedness framework (collaboration among the NBKR, MoF and Deposit Protection Agency).	End-September, 2016	**New**

Table 13. Millennium Development Goals Indicators

	1990	2000	2012	2013	LIC 2013	ECA 2013	Goals 2015
Goal 1: Eradicate extreme poverty and hunger							
Employment to population ratio, 15+, total (percent)	*59*	60	62	62	72	51	...
Employment to population ratio, ages 15-24, total (percent)	41	42	..	41	56	32	...
GDP per person employed (constant 1990 PPP US$)	9,031	5,948	7,175	...	3,426	19,057	...
Income share held by lowest 20 percent	*11*	*8*	10	...	..	..	...
Malnutrition prevalence, weight for age (percent of children under 5)	...	...	4	3	21	2	...
Poverty gap at US$1.25 a day (PPP) (percent)	*0*	*9*	1	...	*19*	*0*	0
Poverty headcount ratio at US$1.25 a day (PPP) (percent of population)	*0*	*34*	3	...	*48*	*1*	...
Vulnerable employment, total (percent of total employment)	...	*52*	...	...	...	*27*	...
Goal 2: Achieve universal primary education							
Literacy rate, youth female (percent of females ages 15–24)	...	*100*	100	...	*68*	*99*	100
Literacy rate, youth male (percent of males ages 15–24)	...	*100*	100	...	*76*	*100*	100
Persistence to last grade of primary, total (percent of cohort)	...	93	98	...	*57*	99	100
Primary completion rate, total (percent of relevant age group)	...	93	98	...	72	99	100
Adjusted net enrollment rate, primary (percent of primary school age children)	...	92	98	99	84	95	100
Goal 3: Promote gender equality and empower women							
Proportion of seats held by women in national parliaments (percent)	...	2	23	23	22	17	...
Ratio of female to male primary enrollment (percent)	102	98	98	...	95	99	100
Ratio of female to male secondary enrollment (percent)	99	103	100	...	89	97	100
Ratio of female to male tertiary enrollment (percent)	...	101	...	...	65	105	...
Share of women employed in the nonagricultural sector (percent of total nonagricultural employment)	...	45.8	42.0	41.5	...	*42.7*	...
Goal 4: Reduce child mortality							
Immunization, measles (percent of children ages 12–23 months)	*94*	98	98	99	80	95	...
Mortality rate, infant (per 1,000 live births)	58	23	20	21	53	20	38
Mortality rate, under-5 (per 1,000 live births)	70	49	26	24	76	23	46
Goal 5: Improve maternal health							
Adolescent fertility rate (births per 1,000 women ages 15–19)	...	46	42	41	93	31	...
Births attended by skilled health staff (percent of total)	99	99	99	...	*49*	*97*	...
Contraceptive prevalence (percent of women ages 15–49)	..	40	36	...	*38*	*64*	...
Maternal mortality ratio (modeled estimate, per 100,000 live births)	73	46	49	75	*440*	*28*	...
Pregnant women receiving prenatal care (percent)	...	...	97	...	*76*	95	...
Unmet need for contraception (percent of married women ages 15–49)	...	...	18	...	23	...	...
Goal 6: Combat HIV/AIDS, malaria, and other diseases							
Children with fever receiving antimalarial drugs (percent of children under age 5 with fever)	...	...	...	...	27	...	...
Condom use, population ages 15–24, female (percent of females ages 15–24)	...	...	9	...	...	...	...
Condom use, population ages 15–24, male (percent of males ages 15–24)	...	...	64	...	...	...	...
Incidence of tuberculosis (per 100,000 people)	95	244	140	141	248	67	46
Prevalence of HIV, female (percent ages 15–24)	...	...	0.1	0.1	1.1	...	0
Prevalence of HIV, male (percent ages 15–24)	...	...	0.1	0.1	0.7	...	0
Prevalence of HIV, total (percent of population ages 15–49)	0.1	0.1	0.2	0.2	2.3	0.6	0
Tuberculosis case detection rate (percent, all forms)	57	50	81	91	59	77	28.5
Goal 7: Ensure environmental sustainability							
CO2 emissions (kg per PPP US$ of GDP)	*2*	1	...	...	*0*	*0*	...
CO2 emissions (metric tons per capita)	*2*	2	...	...	*0*	*5*	...
Forest area (percent of land area)	4.4	3.2	5.6	...	27.5	10.5	...
Improved sanitation facilities (percent of population with access)	91.2	92	93	93	*37*	*94*	100
Improved water source (percent of population with access)	*75*	78	88	89	*69*	*95*	100
Marine protected areas (percent of territorial waters)	...	...	...	...	13	*10*	...
Net ODA received per capita (current US$)	*5*	44	84	94	47	37	...
Goal 8: Develop a global partnership for development							
Debt service (PPG and IMF only, percent of exports of goods, services and primary income)	...	10	3	3	4	6	...
Internet users (per 100 people)	0.0	1.0	19.8	23.0	7.1	45.9	...
Mobile cellular subscriptions (per 100 people)	0	0	124	121	53	112	...
Telephone lines, landline and mobile (per 100 people)	7	9	9	8	1	21	...
Fertility rate, total (births per woman)	4	2	3	3	4	2	...
Other							
GNI per capita, Atlas method (current US$)	*520*	280	1,040	1,220	664	7,087	...
GNI, Atlas method (current US$) (billions)	*2.3*	1.4	5.8	7.0	563.4	1,929.1	...
Gross capital formation (percent of GDP)	24.2	20.0	35.0	33.9	27.3	21.6	...
Life expectancy at birth, total (years)	68	68	70	70	62	72	...
Literacy rate, adult total (percent of people ages 15 and above)	..	*99*	..	..	*60*	*98*	...
Population, total (billions)	0.0	0.0	0.0	0.0	0.8	0.4	...
Trade (percent of GDP)	78.8	89.4	139.7	134.0	63.1	73.7	...

Source: World Development Indicators.

Note: Figures in italics refer to periods other than those specified.

Annex I. Implementation of 2013 Article IV Consultation's Key Recommendations

Staff Advice	Policy Action
Fiscal Policy	
Restoring fiscal sustainability and decreasing dependence of foreign aid	The authorities reduced primary balance excluding grants from -6.9 in 2012 to -2.4 percent of GDP in 2014. They are committed to turn primary balance excluding grants positive by 2018.
Tax policy measures—removing tax exemptions and increasing import tax-related rates, gradually phasing out sales tax	While removing some, authorities introduced new exemptions. However, they are committed not to introduced new and renew expiring exemptions. Proposal to phase out sales tax was submitted to parliament in August 2015, while import taxes are raised in the context of joining the Eurasian Economic Union.
Strengthen public financial management	Commitment register has been expanded to cover local budgets and special means. Regulations on accounting and financial reported based on unified chart of accounts and international norms were issued. However, there was no progress on introducing the treasury single account.
Enhance target social assistance programs	The authorities maintained the number of beneficiaries, but increase the monthly transfers.
Monetary and Exchange Rate Policies	
Monetary framework	The NBKR introduced new monetary policy framework, with interest rates as operating targets, in Spring 2014. It created corridor around the policy rate and kept the policy rate positive in real terms.
Flexible exchange rate	The NBKR pursued relatively flexible exchange rate policy. It only intervened once in 2013, while in 2014 there were 58 interventions with almost a quarter of reserves used to defend som from speculative attacks.
Financial Sector Policies	
Enact Banking Code to enhance the autonomy of the NBRK and strengthen resolution framework	The Code was submitted in to the Parliament in September 2013. The first reading was completed in June 2015 and the Code downgraded to the law.
Enact amendments to the AML/CFT	Parliament rejected the amendments. However, authorities are committed to resubmit the amendments by spring 2015.
Resolve banks under liquidations	There was no progress. However, authorities are committed to complete audit of DEBRA by spring 2016.

Annex II. The Status of Implementation of FSAP Recommendations

Recommendation	***Status***
Bank Supervision	
Develop and execute a strategic plan to build supervisory capacity and provide for a robust supervisory program.	Not implemented
Enact the Banking Code.	Work in progress (downgraded to the banking law)
Update those NBKR regulations, instructions, and guidelines affected by enactment of the Banking Code and any changes arising from the other recommendations of this FSAP. Conduct a self-assessment of compliance with the BCPs.	NA
Harmonize the minimum capital requirement. Maintain the 12 percent regulatory capital requirement.	Implemented
Crisis Management and Bank Resolution	
Eliminate routine use of the Temporary Management upon establishing an effective special resolution regime.	Work in progress (to be done with the banking law)
Introduce an SRR with full powers provided to the resolution authorities to resolve banks, including via P&A transactions, creation of a bridge bank for systemically important banks (SIBs), and liquidation.	Work in progress (to be done with the banking law)
Establish a formal financial crisis preparedness framework, including the creation of a high-level inter-agency committee dedicated to the issues of financial stability and crisis management.	Work in progress (SB)
The DEBRA to concentrate on expediting the liquidation of banks under its management, and its resolution function to be terminated once all the cases are completed.	Work in progress (SB)
Amend the legislative framework to prevent judicial actions from unduly constraining the implementation of key measures by the resolution authorities.	Work in progress
Enable the Deposit Protection Agency (DPA) to use its funds to facilitate the transfer of insured deposits to another bank under P&A transactions.	Work in progress
Monetary Operations	
Subordinate exchange rate smoothing objectives to monetary policy objectives. Improve liquidity management and adopt an interest rate-targeting framework.	Implemented
Supervision of Nonbank Financial Institution (NBFIs); Access to Finance; and Role of the State	
Revise oversight and strengthen licensing requirements for microcredit companies (MCCs) and microcredit agencies (MCAs) to facilitate enforcement.	Implemented
In implementing the recently introduced Usury Law, prepare regulations that differentiate between the reference rates for banks and MFOs based on annual percentage rate (APR) calculations.	Not implemented
Revise the legal framework for agent banking to expand the range of agents and permissible activities.	Implemented
Create a Financial Sector Council comprising members from all relevant agencies and charged	Implemented

Recommendation	***Status***
with financial sector development policy.	
Prepare a plan for the privatization of SSC focused on attracting a strategic reputable foreign investor.	Over the medium term
Pensions and Insurance	
Arrange for an independent actuarial valuation of the pay as you go (PAYG) component of the Social Fund.	Implemented
Develop a timetable for the further reform of the Social Fund and the participation of the private sector in the accumulation component.	Implemented
Adopt the Law on Motor Third-Party Liability (MTPL) insurance. Commence work on the design and implementation of the database for MTPL.	Implemented
Finalize and implement the legal framework for the Law on Agricultural Insurance.	Not implemented
Financial Infrastructure	
Enact a new Payment Systems Law after a review of issues like finality of settlement.	Implemented
Introduce measures to ensure payment versus payment (PVP) in foreign exchange (FX) settlements.	Implemented
Review the regulatory framework for remittances in line with the CPSS-World Bank General Principles for International Remittance Services.	Work in progress
Take responsibility for oversight of the credit reporting system and formulate a strategy for development.	Work in progress
Introduce simplified procedures for security enforcement and out-of-court foreclosure.	Work in progress

Annex III. Risk Assessment Matrix (June 2015)[1]

Source of Risks	Relative Likelihood	Possible Impact if Risk Is Realized	Policy response
Global Risks			
Structurally weak growth in key emerging economies (the "new mediocre"): • **Emerging markets, including China.** Maturing of the cycle, misallocation of investment and excess corporate leverage (including in FX) fueled by a prolonged period of easy global financial conditions, and insufficient progress with reforms leads to a significant medium-term growth slowdown. • **Sharp China slowdown in 2015–16.** Growth falls significantly below target, possibly due to a severe housing downturn or a shock in the shadow banking sector.	**Medium** **Low**	**Staff assessment: Low/Medium** Effects would be via slowdown of FDI and PIP loans.	Fiscal adjustment to build buffers, create fiscal space to avoid fluctuation of capital spending.
Political fragmentation erodes the globalization process and fosters inefficiency: • **Russia/Ukraine:** the mounting conflict depresses business confidence and heightens risk aversion, amid disturbances in global financial, trade and commodity markets.	**Medium**	**Staff assessment: Low/Medium** A more protracted slowdown in Russia would have effects via the exchange rate, remittances, trade, and investment channels. Given elasticity of remittances to host country growth, the growth in Kyrgyz can decline by 0.6 to 2 percent, current	Following program adjustment path, while increasing social spending to offset social pressures, and allowing greater flexibility of the exchange rate. However, trade-offs with financial sector stability has to be

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Nonmutually exclusive risks may interact and materialize jointly.

Source of Risks	Relative Likelihood	Possible Impact if Risk Is Realized	Policy response
		account can deteriorate up to additional 5 percent of GDP, and fiscal deficit can increase for 0.2 percent of GDP.	taken into account.
Country-Specific Risks			
Deterioration of domestic security Increase in terrorist attacks and rising religious extremism.	**Low**	**Staff assessment: Medium** It could destabilize country and cause ethnic tension, especially at the south of the country. Moreover, may require additional spending for military and security.	Creating fiscal space and buffers to accommodate unplanned spending (i.e., contingency budget).
Conflict with neighboring countries Continuing ethnic tensions at the border of neighboring countries and regional water disagreements could turn into conflicts.	**Low**	**Staff assessment: Low/Medium** Severe impact on economic activity.	Creating fiscal space and buffers to accommodate unplanned spending (i.e., contingency budget).
Delays in reforms due to the political cycle Pressures in the run up to this year's parliamentary elections could cause delays in enacting laws by legislative branch and in implementing reforms by executive branch.	**Low**	**Staff assessment: Low/Medium** If tax code is not approved, the 2016 budget financing gap may become higher. If banking code is not adopted, the resolution of banks would be prolonged and impact confidence in the banking sector.	Developing alternative plans to achieve the same consolidation and ensure stability of the banking sector.

Source of Risks	Relative Likelihood	Possible Impact if Risk Is Realized	Policy response
Disruptions in gold production and lower gold prices The ongoing dispute with the major gold-mining company could lead to a drop in gold production and to lower investor confidence.	**Medium**	**Staff assessment: Medium** A drop in gold production would adversely affect growth and budgetary revenues. Another contingency budgetary cost could stem from potential litigation. A prolonged dispute would negatively affect investment.	Resolving dispute with Centerra in a timely and mutually satisfactory manner.
Build-up of risks in the financial sector High credit growth, dollarization and exchange rate depreciation are signaling the build-up of risks.	**Medium**	**Medium** Credit and liquidity risk could become difficult to manage, especially for small banks. NPLs could increase. Problems would spillover to economy and negatively affect the growth prospects.	Macro-prudential toolkit to limit the credit growth, enhanced monitoring of risk in large and small bank, strengthening supervision and developing crises preparedness framework.
Exchange rate depreciation Sensitivity of the exchange rate to volatility of ruble and tenge.	**Medium**	**Medium** Could cause some speculative attacks on the exchange rate. Could worsen balance sheet of banks and households reducing banks' profitability and asset quality.	Develop a clear strategy for intervention. Impose stricter limits on net FX open position and FX lending.
Policy response in most cases would involve an acceleration of structural reforms, preventing excess volatility of exchange rate by using reserves, implementing macroprudential measures, and enacting banking code.			

Annex IV. Debt Sustainability Analysis[1]

The Kyrgyz Republic remains at a moderate risk of debt distress, but massive foreign financed public investment in combination with the recent sharp depreciation of the currency is undermining debt sustainability. While under the DSA, external debt is estimated at 35 percent of GDP and remittances[2] in present value (PV) term, additional borrowing or further exchange rate volatility could take debt above the risk of debt distress. Against this background, the authorities need to exercise more prudence when contracting and guaranteeing new debt. Furthermore, a primary balance of about 2 percent of GDP by 2018 would be needed in order to bring public debt to sustainable levels. The authorities broadly concurred with the results of this DSA.

1. The 2015 updated joint Bank-Fund debt sustainability analysis (DSA) confirms the moderate risk rating found in the last DSA conducted last May (country report No.15/113). The update takes into account revised macroeconomic assumptions and updated data on public investment programs (PIP) borrowings.

Underlying DSA assumptions

2. This DSA is consistent with the macroeconomic framework outlined in the Staff Report for the First Review under the ECF (Box 1). For 2015, economic growth is expected to be slightly higher due to stronger than expected resilience of domestic demand to adverse external shocks. The fiscal balance in 2015 is expected to improve due to higher than expected nontax revenue and delays in the implementation of some infrastructure projects. The current account deficit has widened due to a larger than expected drop in remittances at the beginning of the year and the reclassification of the Russian-Kyrgyz Development Fund (RKDF) from current transfers to FDI due to its status of an international organization.

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

[2] The Kyrgyz Republic is classified as a large remittances case. In the 2012–14 period remittances averaged 29 percent of GDP and 61 percent of exports of goods and services, well above the 10 percent and 20 percent respective threshold-criteria for the large remittances case.

Selected Indicators (2014–35)

	2014	2015	2016	2017	2018	Long term
	Act.	Proj.				
Real GDP growth						
Current DSA	3.6	2.4	3.6	3.1	5.3	5.2
Previous DSA	3.6	1.7	3.4	5.2	5.2	5.2
Overall fiscal balance (percent of GDP)						
Current DSA	-3.9	-5.4	-9.1	-4.1	-1.1	-2.5
Previous DSA	-3.7	-7.6	-6.5	-3.9	-1.3	-2.5
Current account balance (percent of GDP)						
Current DSA	-16.8	-16.0	-17.3	-14.9	-14.1	-7.9
Previous DSA	-13.7	-17.0	-15.1	-13.4	-10.6	-7.9

Sources: Authorities data and IMF staff calculations.

Box 1. Macroeconomic Assumptions for 2015–35

Real GDP growth: Following a slowdown due to inclement weather (in 2014) and weak regional growth (in 2015) real GDP growth is expected to recover gradually in the coming years and reach its potential estimated at 5 percent by 2018. Growth in the medium to long run will be supported by infrastructure and energy investments, strong private credit growth and policy reforms aimed at improving the business climate.

Inflation is expected to remain at single-digit levels due to low fuel and food prices and prudent monetary policy. In the long-run inflation is anticipated to decrease further to 4 percent.

The current account deficit is expected to remain above 16 percent of GDP in 2015–16, driven by lower gold exports, the import content of the large investment projects and the drop in remittances in the context of the regional slowdown. After the unwinding of the public investment projects, and driven by a recovery of remittances, the current account deficit should stabilize at around 10 percent of GDP in the long-run.

Public investment: While PIP disbursement were somewhat delayed in 2015 (US$344 million instead of the projected US$505 million), they are expected to pick up in the medium run. As a result, capital expenditure is expected to amount to 16.5 percent of GDP in 2016 exceeding the level of private investment. Public investment should gradually decline beyond 2020 to stabilize at around 8 percent of GDP.

FDI: The reclassification of the Russian-Kyrgyz Development Fund (RKDF) resulted in an upward revision to FDI levels in the short to medium run. The implementation of the main public infrastructure projects is expected to increase net FDI flows to 8 percent of GDP in 2016–17. In the long-run FDI should stabilize at 5 percent of GDP.

The overall fiscal deficit is expected to increase above 4 percent by 2016 driven by elevated capital expenditures owing to public infrastructure projects. Following the unwinding of large public investments, the fiscal balance should stabilize gradually at around 1 percent of GDP in the long-run.

Box 1. Macroeconomic Assumptions for 2015–35 (concluded)

Financing: FDI and concessional borrowing are expected to be the main source of financing for public infrastructure investments. The average grant element of new external borrowing is projected to remain above 40 percent in the medium-run, but in line with our assumption of a gradual shift towards market financing beyond 2020, effective interest rates are expected to increase from the current 2 percent to close to 7 percent by the end of the forecast period. Remittances are projected to remain a major source of financing (close to 28 percent of GDP in 2016–17), but their share in percent of GDP should decline to 20 percent over the long term reflecting the diversification of the economy

3. **The baseline scenario indicates a deterioration of the external debt burden in comparison with the previous DSA.** External public and publicly guaranteed debt is projected at 63 percent of GDP in 2015,[3] which is 3 percentage points above the previous DSA. The higher than expected debt level in 2015 is mainly due to the 16 percent depreciation of the som vis-à-vis the U.S. dollar, while the delays in PIP disbursements contained the accumulation of external debt. In the medium-run, strong public investment is expected to keep external PPG debt at elevated levels, close to 65 percent of GDP.

Comparison of Debt Ratio

	2014	2015	2016	2017	2018	2019
	Act.	Proj.				
PPGE debt to GDP ratio						
Current DSA	51.0	63.0	65.3	66.1	64.7	63.6
Previous DSA	51.0	57.0	59.5	59.5	56.4	53.7
Public debt to GDP ratio						
Current DSA	53.0	64.9	66.9	67.6	66.1	64.9
Previous DSA	53.0	58.8	61.2	61.0	57.7	54.9

4. **Planned infrastructure investments and depreciation of the national currency since the beginning of the year have brought external PPG debt closer to the high risk of debt distress level threshold.** The present value of the public and publicly guaranteed (PPG) debt to GDP and remittances ratio is expected to reach 35 percent in 2016 and 2017, above the level envisaged in the previous DSA and within a 10 percent band around the 36 percent (34.2–37.8) corresponding threshold, signaling the Kyrgyz Republic as a borderline case. As regards the other solvency and liquidity indicators they do not breach their indicative thresholds and imply limited risks.

5. **The external PPG debt outlook also remains vulnerable to large shocks, in particular to a further depreciation of the exchange rate.** The PV of the debt to GDP and remittances ratio rises above the relevant indicative thresholds over the medium term under four of the six standard

[3] External public and publicly guaranteed debt includes the debt of the 19 largest SOEs.

stress tests: (i) when the exports grow at one standard deviation below their historical average over 2016–17; (ii) when the net non-debt creating inflows over 2016–17 are one standard deviation below their historical average; (iii) when the exchange rate depreciates by 30 percent in 2016 relative to the baseline; and (iv) under a shock over 2016–17 combining lower GDP and export growth, a decline in the U.S. dollar GDP deflator and lower net nondebt creating inflows (see Table 2). The shock on the exchange rate, which in magnitude is not far from the actual depreciation experienced this year, in particular would lead to a significant and protracted breach of the indicative threshold over the medium term.

6. **The sharp decline in remittances presents an additional downside risk.** Under the baseline scenario we assume a 20 percent drop in remittances in USD terms driven by the regional economic slowdown in 2015, followed by a gradual recovery in 2016 and 2017. Under a customized alternative scenario, which assumes an additional one-time 10 percent drop in remittances, the present value of the debt to GDP ratio would remain above 37 percent for a prolonged period after 2017, further elevating debt levels towards high risk of debt distress. Moreover, the private external debt also increased with the exchange rate depreciation adding stress on the overall external debt sustainability.

7. **The probability approach confirms the Kyrgyz Republic's external risk rating as moderate.**[4] Given that one of the indicative thresholds is nearly breached under the baseline and several thresholds are breached under the stress test scenarios, Kyrgyz is classified as a moderate-high borderline case. The probability approach indicates no breaches of the probability thresholds (Figure 3), confirming the moderate risk of external debt distress.

Public debt sustainability

8. **The public debt outlook has also deteriorated compared to the previous DSA, mainly driven by the increase in external public debt following the depreciation of the som.** Public debt is expected to reach 64.9 percent of GDP in 2015 and increase further to 67.6 percent of GDP in 2017 following the disbursement for the public infrastructure projects.

9. **Total public debt is expected to be manageable in the medium and long term. Under the baseline scenario, the present value of public debt to GDP ratio would reach 46.7 percent in 2017, followed by a decline in the context of medium term fiscal consolidation.** In the longer run, the present value of total public debt is expected to stabilize at 45 percent of GDP. Alternative scenarios and stress tests show that public debt remains highly sensitive to shocks that reduce real GDP growth, weaken the exchange rate or deteriorate the primary deficit over the medium term.

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[4] The probability approach draws on country specific CPIA and GDP growth information to project debt distress probabilities.

10. The recently prepared medium-term debt strategy will need to be updated. It needs to include the most recent macroeconomic developments and the revised medium-term macroeconomic framework. While limiting the foreign exchange exposure of the debt portfolio would help to lower exchange rate vulnerabilities, it would need to be weighed against potentially higher financing costs due to less concessional terms available on domestic markets. Furthermore, establishing a viable alternative to external borrowing might take considerable time given the lack of depth of local bond markets.

Conclusion

11. While external PPG debt is expected to remain at a moderate risk of debt distress, immediate action is needed to contain it and bring it back to sustainable levels. The medium-term fiscal framework has been revised and now contains consolidation efforts totaling 4.6 percent of GDP in the 2016–18 period. Debt monitoring to minimize fiscal risk stemming from SOEs should be strengthened. Debt management should also benefit from the review of the public investment framework that authorities committed to undertake.[5]

12. The Kyrgyz authorities broadly concurred with the assumptions and conclusions, including identified vulnerabilities, of this DSA. They agreed that debt vulnerabilities have increased since the beginning of the year bringing the country to the borderline of high risk of debt distress. The authorities expressed their will to maintain public external debt at sustainable levels over the medium-term. To help them meet this objective, and given elevated debt vulnerabilities, staff agreed with the authorities' request to maintain an indicative target on zero-non-concessional borrowing. The authorities are also committed to a primary balance of about 2 percent of GDP by 2018 to ensure debt sustainability.

[5] The World Bank has provided technical assistance to the authorities in recent years on developing a medium-term debt management strategy, focusing on capacity building and on the quantification of costs and risks of alternative borrowing strategies, which lead eventually to a structured approach to future borrowing.

External Debt Sustainability Framework, Baseline Scenario, 2015–35 1/

	Actual			Historical 6/	Standard 6/	Projections									
				Average	Deviation							2015-2020			2021-2035
	2012	2013	2014			2015	2016	2017	2018	2019	2020	Average	2025	2035	Average
External debt (nominal) 1/	**80.2**	**72.9**	**81.2**			**98.1**	**100.8**	**100.7**	**97.9**	**95.8**	**94.9**		**86.0**	**76.0**	
of which: public and publicly guaranteed (PPG)	46.3	43.7	51.0			63.0	65.3	66.1	64.7	63.6	62.7		50.8	35.8	
Change in external debt	3.3	-7.3	8.3			16.9	2.7	-0.1	-2.8	-2.1	-0.9		-1.5	-1.8	
Identified net debt-creating flows	6.5	-1.5	13.8			6.1	5.2	5.0	2.4	1.5	-0.5		-2.3	-4.0	
Non-interest current account deficit	**14.9**	**14.1**	**15.9**	**7.9**	**6.9**	**14.6**	**15.6**	**13.1**	**12.8**	**11.3**	**8.6**	**12.6**	**3.8**	**-0.5**	2.8
Deficit in balance of goods and services	44.3	40.4	44.1			38.4	41.9	41.5	40.2	36.4	33.0		26.4	18.3	
Exports	49.0	51.3	44.0			41.1	43.0	40.8	40.0	39.7	40.2		42.6	47.3	
Imports	93.2	91.7	88.1			79.5	84.9	82.4	80.2	76.1	73.2		69.0	65.6	
Net current transfers (negative = inflow)	-31.2	-31.1	-30.4	-27.9	3.3	-26.0	-27.9	-29.9	-28.8	-27.9	-26.8	**-27.9**	-24.7	-20.3	-23.4
of which: official	-1.0	-1.7	-2.8			-1.5	-0.6	-1.3	-0.9	-0.6	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	1.9	4.8	2.1			2.2	1.6	1.4	1.4	2.7	2.4		2.0	1.6	
Net FDI (negative = inflow)	**-4.4**	**-8.5**	**-2.3**	**-6.1**	**3.1**	**-7.8**	**-8.7**	**-7.1**	**-6.8**	**-6.9**	**-6.6**	**-7.3**	**-5.3**	**-4.8**	-5.3
Endogenous debt dynamics 2/	**-4.0**	**-7.0**	**0.3**			**-0.6**	**-1.8**	**-1.1**	**-3.6**	**-2.8**	**-2.5**		**-0.8**	**1.2**	
Contribution from nominal interest rate	0.7	1.0	1.0			1.5	1.7	1.8	1.3	1.8	2.8		3.7	5.0	
Contribution from real GDP growth	0.6	-7.6	-2.6			-2.2	-3.5	-2.9	-4.9	-4.7	-5.3		-4.4	-3.7	
Contribution from price and exchange rate changes	-5.4	-0.4	1.9			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-3.2**	**-5.8**	**-5.6**			**10.8**	**-2.4**	**-5.0**	**-5.3**	**-3.6**	**-0.4**		**0.8**	**2.2**	
of which: exceptional financing	0.0	0.0	0.0			0.0	-0.4	-0.4	-0.4	-0.3	-0.3		-0.2	0.0	
PV of external debt 4/	...	...	65.8			78.2	80.1	79.8	77.3	75.5	75.1		70.5	64.4	
In percent of exports	...	...	149.6			190.1	186.3	195.6	193.4	190.4	186.9		165.4	136.3	
PV of PPG external debt	**...**	**...**	**35.6**			**43.2**	**44.5**	**45.2**	**44.2**	**43.4**	**42.8**		**35.2**	**24.3**	
In percent of exports	**...**	**...**	**81.0**			**105.0**	**103.6**	**110.6**	**110.5**	**109.4**	**106.6**		**82.7**	**51.4**	
In percent of government revenues	**...**	**...**	**110.2**			**130.5**	**139.3**	**142.1**	**136.2**	**131.3**	**127.6**		**105.2**	**59.3**	
Debt service-to-exports ratio (in percent)	**13.2**	**19.9**	**14.8**			**19.0**	**21.8**	**23.4**	**23.6**	**25.4**	**28.1**		**36.7**	**48.7**	
PPG debt service-to-exports ratio (in percent)	**4.5**	**7.7**	**3.6**			**4.9**	**6.2**	**6.6**	**6.9**	**7.1**	**6.9**		**6.8**	**6.1**	
PPG debt service-to-revenue ratio (in percent)	**6.9**	**12.3**	**4.9**			**6.1**	**8.4**	**8.5**	**8.6**	**8.5**	**8.2**		**8.6**	**7.1**	
Total gross financing need (Billions of U.S. dollars)	1.1	1.2	1.5			1.0	1.1	1.1	1.2	1.2	1.2		1.9	4.6	
Non-interest current account deficit that stabilizes debt ratio	11.6	21.4	7.6			-2.4	12.9	13.2	15.6	13.4	9.4		5.3	1.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	-0.9	10.5	3.6	4.1	4.0	2.4	3.6	3.1	5.3	5.2	6.0	4.3	5.5	5.1	5.0
GDP deflator in US dollar terms (change in percent)	7.5	0.4	-2.6	9.1	12.1	-12.1	-2.2	4.8	4.0	2.9	2.0	-0.1	2.0	2.0	2.0
Effective interest rate (percent) 5/	1.0	1.3	1.4	1.2	0.3	1.7	1.8	2.0	1.4	2.0	3.2	2.0	4.5	6.9	5.4
Growth of exports of G&S (US dollar terms, in percent)	3.4	16.3	-13.5	13.8	19.8	-15.8	5.8	2.7	7.3	7.3	9.5	2.8	8.7	8.1	8.3
Growth of imports of G&S (US dollar terms, in percent)	25.7	9.2	-3.0	21.6	25.1	-18.8	8.2	4.9	6.7	2.7	4.0	1.3	6.9	6.6	6.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	40.8	39.3	38.7	42.0	42.4	45.1	41.4	39.6	27.7	35.6
Government revenues (excluding grants, in percent of GDP)	32.4	32.0	32.3			33.1	32.0	31.8	32.4	33.0	33.6		33.5	41.0	34.4
Aid flows (in Billions of US dollars) 7/	0.3	0.3	0.3			0.4	0.5	0.4	0.5	0.5	0.5		0.5	0.7	
of which: Grants	0.2	0.2	0.3			0.3	0.3	0.3	0.2	0.2	0.2		0.2	0.3	
of which: Concessional loans	0.1	0.1	0.1			0.2	0.2	0.2	0.3	0.3	0.4		0.3	0.4	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			6.7	7.6	6.5	5.6	4.9	3.9		2.8	2.0	2.5
Grant-equivalent financing (in percent of external financing) 8/	0.0	0.0	0.0			65.9	56.2	58.6	60.1	59.5	59.6		57.7	43.2	53.3
Memorandum items:															
Nominal GDP (Billions of US dollars)	6.6	7.3	7.4			6.7	6.7	7.3	8.0	8.6	9.3		13.2	26.1	
Nominal dollar GDP growth	6.6	11.0	0.9			-10.0	1.3	8.1	9.6	8.2	8.1	4.2	7.5	7.2	7.1
PV of PPG external debt (in Billions of US dollars)			2.4			2.6	3.0	3.3	3.5	3.7	4.0		4.6	6.3	
(PVt-PVt-1)/GDPt-1 (in percent)						3.0	5.3	4.3	3.2	2.7	2.9	3.6	1.2	1.0	1.0
Gross workers' remittances (Billions of US dollars)	2.0	2.2	2.0			1.6	1.8	2.1	2.2	2.4	2.5		3.3	5.3	
PV of PPG external debt (in percent of GDP + remittances)	...	...	27.9			34.7	34.9	35.1	34.5	34.1	33.8		28.3	20.2	
PV of PPG external debt (in percent of exports + remittances)	...	...	49.8			65.8	63.3	65.1	65.1	64.7	63.9		52.3	36.0	
Debt service of PPG external debt (in percent of exports + remittance	...	...	2.2			3.1	3.8	3.9	4.1	4.2	4.1		4.3	4.3	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

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

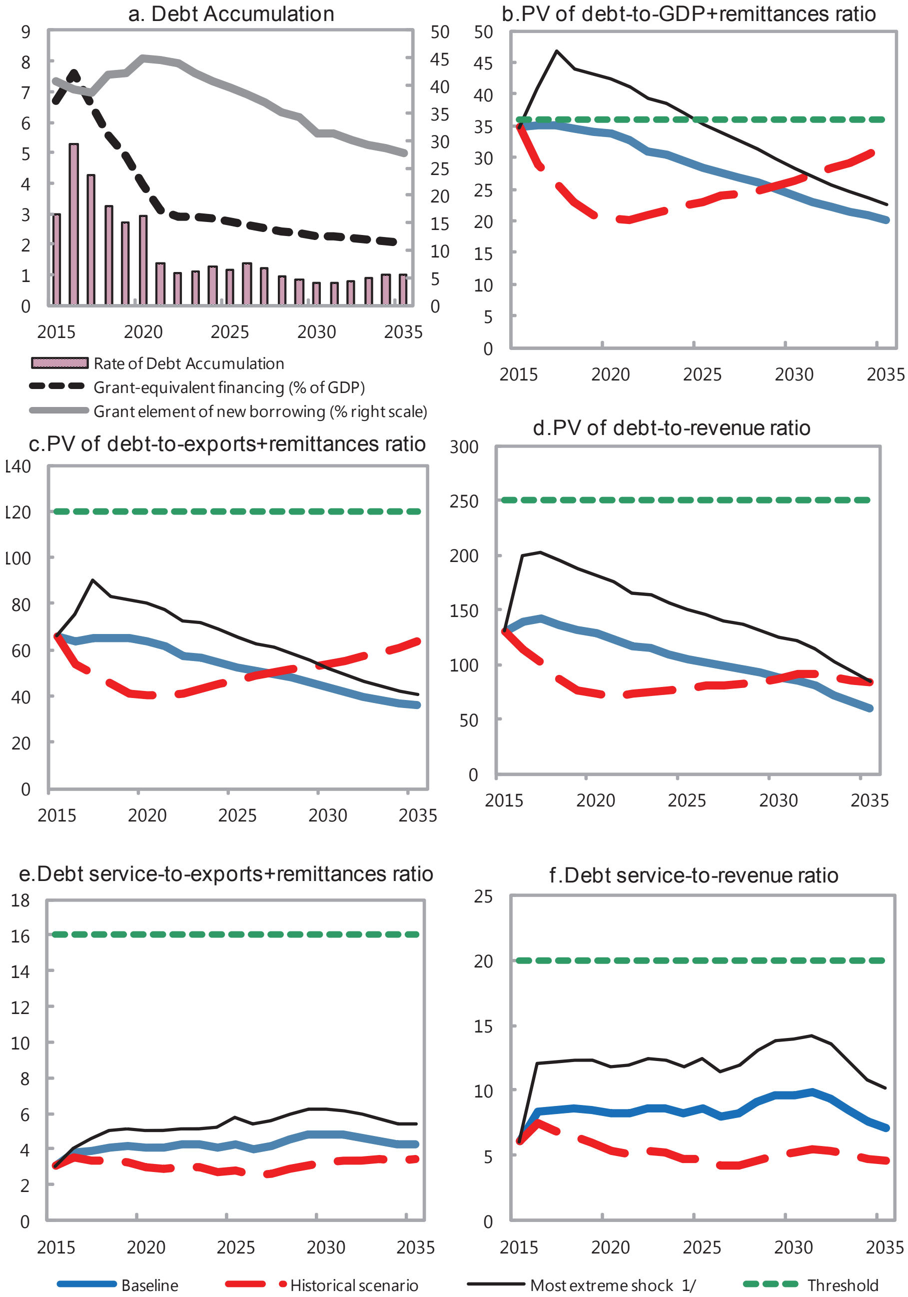
5/ Current-year interest payments divided by previous period debt stock.

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

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

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

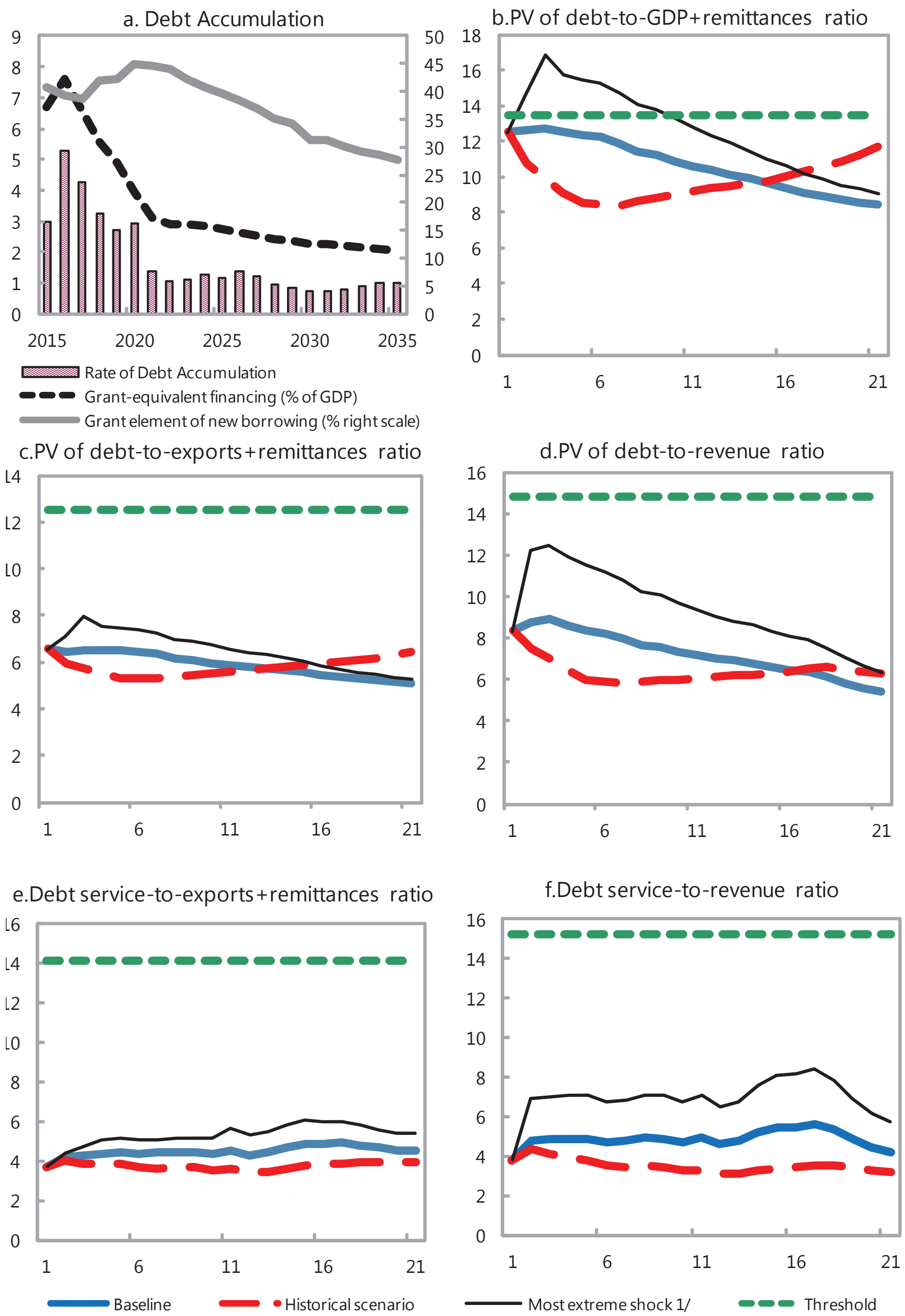
Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2015–35[1/]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a Critical threshold shock; in c. to a Non-debt flows shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Probability of Debt Distress of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015–35[1/]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a Critical threshold shock; in c. to a Non-debt flows shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–35

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
PV of debt-to-GDP+remittances ratio								
Baseline	35	35	35	35	34	34	**28**	20
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	35	29	26	23	21	20	**23**	32
A2. New public sector loans on less favorable terms in 2015-2035 2	35	36	38	38	39	39	**36**	35
A3. Alternative Scenario : One time 10 percent drop in remittances	35	35	37	36	37	37	38	33
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	35	35	36	36	35	35	**29**	21
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	35	37	42	41	40	40	**33**	22
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	35	35	37	36	36	36	**30**	21
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	35	41	47	44	43	43	**35**	23
B5. Combination of B1-B4 using one-half standard deviation shocks	35	37	42	40	39	39	**32**	21
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	35	46	46	45	44	44	**37**	27
PV of debt-to-exports+remittances ratio								
Baseline	66	63	65	65	65	64	**52**	36
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	66	53	50	45	41	40	**47**	63
A2. New public sector loans on less favorable terms in 2015-2035 2	66	66	70	73	74	75	**67**	63
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	66	63	64	64	64	63	**52**	35
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	66	73	87	86	86	84	**69**	45
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	66	63	64	64	64	63	**52**	35
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	66	76	90	83	82	80	**65**	40
B5. Combination of B1-B4 using one-half standard deviation shocks	66	71	81	76	76	75	**61**	39
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	66	63	64	64	64	63	**52**	35
PV of debt-to-revenue ratio								
Baseline	131	139	142	136	131	128	**105**	59
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	131	113	102	87	76	73	**78**	83
A2. New public sector loans on less favorable terms in 2015-2035 2	131	145	154	152	150	149	**136**	103
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	131	143	150	144	138	135	**111**	62
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	131	149	169	161	155	150	**123**	64
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	131	139	153	147	141	137	**113**	63
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	131	158	182	173	166	161	**131**	67
B5. Combination of B1-B4 using one-half standard deviation shocks	131	145	165	157	151	146	**120**	63
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	131	199	203	194	187	182	**150**	84

Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–35 (continued)

(In percent)

Debt service-to-exports+remittances ratio

Baseline	3	4	4	4	4	4	**4**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	3	4	3	3	3	3	**3**	3
A2. New public sector loans on less favorable terms in 2015-2035 2	3	4	4	4	5	5	**5**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	3	4	4	4	4	4	**4**	4
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	3	4	5	5	5	5	**6**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	3	4	4	4	4	4	**4**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	3	4	5	5	5	5	**5**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	3	4	4	5	5	4	**5**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	3	4	4	4	4	4	**4**	4

Debt service-to-revenue ratio

Baseline	6	8	8	9	9	8	**9**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	6	7	7	6	6	5	**5**	5
A2. New public sector loans on less favorable terms in 2015-2035 2	6	8	9	9	9	9	**9**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	6	9	9	9	9	9	**9**	8
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	6	8	9	9	9	9	**10**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	6	8	9	9	9	9	**9**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	6	8	9	10	10	9	**11**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	6	8	9	9	9	9	**10**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	6	12	12	12	12	12	**12**	10
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	27	27	27	27	27	27	**27**	27

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.

Public Sector Debt Sustainability Framework, Baseline Scenario, 2012–35

(In percent of GDP unless otherwise indicated)

	Actual					Estimate	Projections								
	2012	2013	2014	Average 5/	Standard Deviation 5/	2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	49.0	46.1	53.0			64.9	66.9	67.6	66.1	64.9	63.8		64.5	56.5	
of which: foreign-currency denominated	46.9	43.7	51.0			63.0	65.3	66.1	64.7	63.6	62.7		50.8	35.8	
Change in public sector debt	-0.4	-2.9	6.9			11.9	2.0	0.7	-1.5	-1.2	-1.1		-0.6	-0.9	
Identified debt-creating flows	2.3	-1.0	6.8			11.0	2.8	-1.4	-5.2	-5.9	-6.4		-2.5	-1.7	
Primary deficit	4.4	2.7	3.0	2.7	2.0	4.5	8.2	3.1	0.2	-1.5	-2.2	2.0	1.3	1.1	1.2
Revenue and grants	34.9	34.4	35.9			37.4	35.7	35.4	35.3	35.5	35.3		34.9	42.0	
of which: grants	2.5	2.4	3.6			4.3	3.8	3.6	2.9	2.4	1.8		1.4	1.0	
Primary (noninterest) expenditure	39.3	37.2	38.9			41.8	43.9	38.5	35.5	34.0	33.1		36.2	43.1	
Automatic debt dynamics	-2.1	-3.8	3.8			6.5	-5.0	-4.1	-5.0	-4.1	-3.9		-3.5	-2.8	
Contribution from interest rate/growth differential	-0.3	-5.2	-2.0			-1.2	-2.6	-2.3	-3.7	-3.5	-3.9		-3.5	-2.7	
of which: contribution from average real interest rate	-0.7	-0.5	-0.4			0.0	-0.3	-0.3	-0.3	-0.3	-0.2		-0.1	0.1	
of which: contribution from real GDP growth	0.4	-4.7	-1.6			-1.2	-2.3	-2.0	-3.4	-3.2	-3.7		-3.4	-2.8	
Contribution from real exchange rate depreciation	-1.8	1.4	5.7			7.7	-2.4	-1.8	-1.3	-0.6	0.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	-0.4	-0.4	-0.4	-0.3	-0.3		-0.2	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	-0.4	-0.4	-0.4	-0.3	-0.3		-0.2	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	-2.7	-1.8	0.2			0.9	-0.8	2.0	3.7	4.7	5.4		1.8	0.8	
Other Sustainability Indicators															
PV of public sector debt	...	...	37.7			45.0	46.2	46.7	45.5	44.6	43.9		48.9	45.0	
of which: foreign-currency denominated	...	...	35.6			43.2	44.5	45.2	44.2	43.4	42.8		35.2	24.3	
of which: external	...	...	35.6			43.2	44.5	45.2	44.2	43.4	42.8		35.2	24.3	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	8.2	7.7	6.3			7.7	11.9	6.7	3.7	2.0	1.2		11.6	6.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	104.8			120.5	129.2	131.9	128.9	125.7	124.4		139.9	107.1	
PV of public sector debt-to-revenue ratio (in percent)	...	...	116.5			136.2	144.5	146.9	140.4	135.0	130.9		145.8	109.7	
of which: external 3/	...	...	110.2			130.5	139.3	142.1	136.2	131.3	127.6		105.2	59.3	
Debt service-to-revenue and grants ratio (in percent) 4/	6.5	11.6	5.6			6.1	8.0	8.0	8.2	8.2	8.2		15.6	15.7	
Debt service-to-revenue ratio (in percent) 4/	7.0	12.5	6.3			6.9	8.9	8.9	8.9	8.8	8.6		16.3	16.1	
Primary deficit that stabilizes the debt-to-GDP ratio	4.8	5.6	-3.9			-7.4	6.2	2.5	1.6	-0.3	-1.1		1.9	2.0	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	-0.9	10.5	3.6	4.1	4.0	2.4	3.6	3.1	5.3	5.2	6.0	4.3	5.5	5.1	5.0
Average nominal interest rate on forex debt (in percent)	1.2	1.2	1.3	1.1	0.2	1.3	1.4	1.4	1.4	1.4	1.5	1.4	1.6	2.1	1.8
Average real interest rate on domestic debt (in percent)	5.5	16.7	6.0	1.6	8.1	7.8	2.4	1.9	1.9	1.9	1.9	3.0	0.0	0.0	0.0
Real exchange rate depreciation (in percent, + indicates depreciation	-3.9	3.4	13.8	-3.9	10.7	15.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	9.5	3.5	7.9	11.2	6.9	6.8	8.3	6.9	6.1	5.0	4.0	6.2	4.0	4.0	4.0
Growth of real primary spending (deflated by GDP deflator, in percer	6.3	4.6	8.5	2.0	3.2	10.0	8.8	-9.6	-3.0	0.7	3.4	1.7	4.9	12.4	7.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	40.8	39.3	38.7	42.0	42.4	45.1	41.4	39.6	27.7	...

Sources: Country authorities; and staff estimates and projections.

1/ General government gross debt.

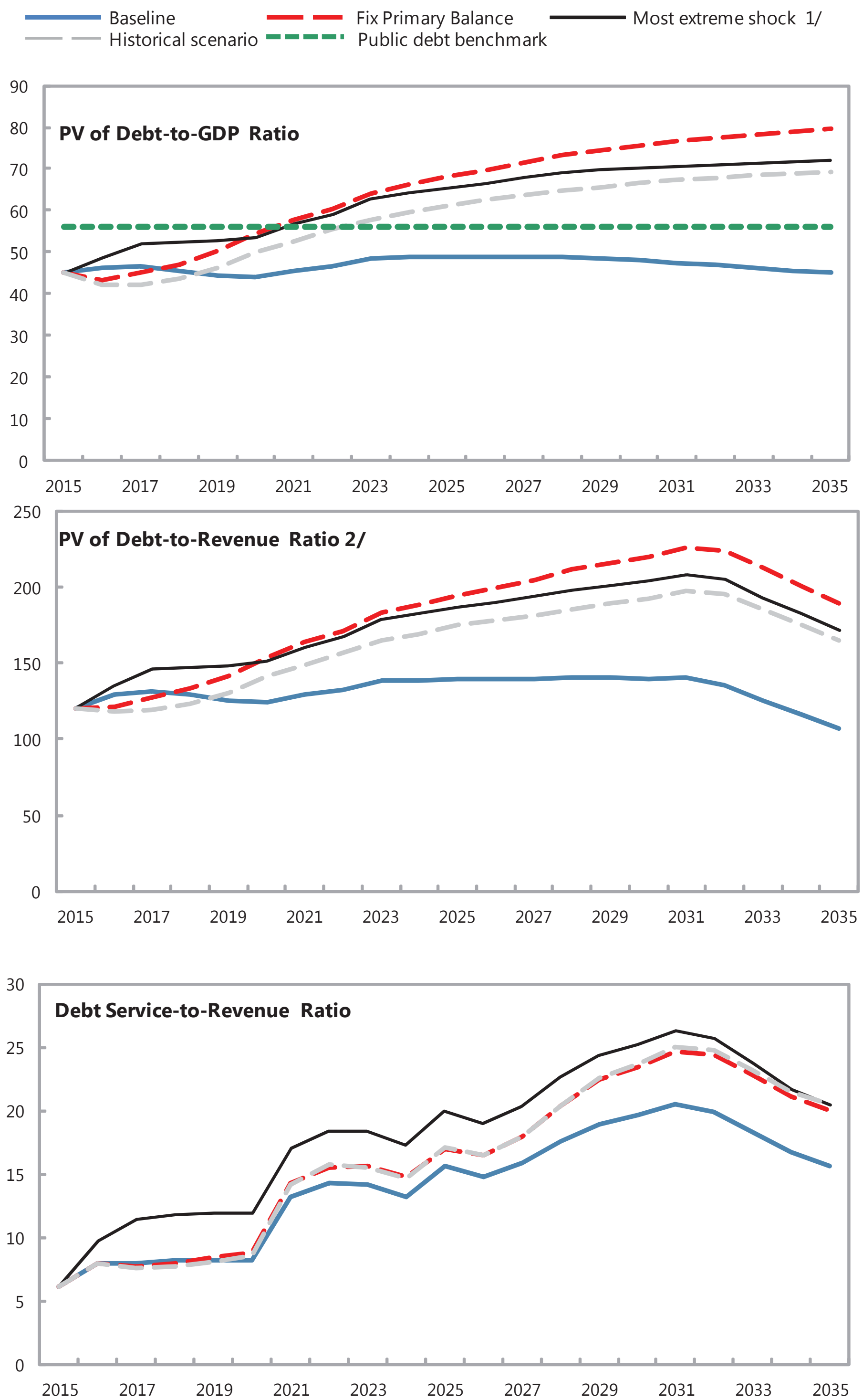
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

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

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

Indicators of Public Debt Under Alternative Scenarios, 2015–35[1/]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.

2/ Revenues are defined inclusive of grants.

Sensitivity Analysis for Key Indicators of Public Debt 2015–35

		Projections						
	2015	2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	45	46	47	46	45	44	49	45
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	45	42	42	44	46	50	61	69
A2. Primary balance is unchanged from 2015	45	43	45	47	50	54	68	79
A3. Permanently lower GDP growth 1/	45	47	48	48	48	49	64	94
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	45	49	52	52	53	54	65	72.1
B2. Primary balance is at historical average minus one standard deviations in 2016-201	45	44	46	44	44	43	48	44
B3. Combination of B1-B2 using one half standard deviation shocks	45	44	45	45	44	44	52	54
B4. One-time 30 percent real depreciation in 2016	45	63	61	58	56	55	58	52
B5. 10 percent of GDP increase in other debt-creating flows in 2016	45	53	54	52	51	50	54	48
PV of Debt-to-Revenue Ratio 2/								
Baseline	120	129	132	129	126	124	140	107
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	120	118	119	123	130	141	175	165
A2. Primary balance is unchanged from 2015	120	122	127	133	142	154	195	189
A3. Permanently lower GDP growth 1/	120	131	136	135	135	138	182	222
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	120	135	146	147	148	151	187	171
B2. Primary balance is at historical average minus one standard deviations in 2016-201	120	122	129	126	123	122	137	106
B3. Combination of B1-B2 using one half standard deviation shocks	120	122	127	126	125	126	150	127
B4. One-time 30 percent real depreciation in 2016	120	175	173	165	159	155	165	125
B5. 10 percent of GDP increase in other debt-creating flows in 2016	120	149	151	147	144	142	155	115
Debt Service-to-Revenue Ratio 2/								
Baseline	6	8	8	8	8	8	16	16
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	6	8	8	8	8	9	17	20
A2. Primary balance is unchanged from 2015	6	8	8	8	8	9	17	20
A3. Permanently lower GDP growth 1/	6	8	8	8	9	9	18	23
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	6	8	9	9	9	9	18	20
B2. Primary balance is at historical average minus one standard deviations in 2016-201	6	8	8	8	8	8	15	16
B3. Combination of B1-B2 using one half standard deviation shocks	6	8	8	8	8	8	16	17
B4. One-time 30 percent real depreciation in 2016	6	10	11	12	12	12	20	20
B5. 10 percent of GDP increase in other debt-creating flows in 2016	6	8	9	9	9	9	17	16

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

Annex V. Reserve Metrics and Exchange Rate Assessment

The Kyrgyz Republic suffered from the continued current accounts deficits over the past decade, financed mainly by foreign loans and foreign direct investments.[1] Since 2014, the real effective exchange rate (REER) has appreciated, while the recent share depreciation of the som slightly reversed the trend. The reserves appear slightly insufficient to buffer the economy against external shocks. Moreover, factors beyond the level of the REER play a prominent role, given political instability, lack of infrastructure and electricity, and a weak business environment.

A. External current account

1. The chronic current account has deteriorated on account of a difficult external environment. The current account deficit recorded 16.8 percent of GDP in 2014 on account of a decline in remittances and a rise in the balance of services deficit. The current account deficit is projected to continue to widen in 2015 to 17.6 percent of GDP, reflecting slowdown in major trading partners, despite a sharp depreciation of the som.

2. Accordingly, public financing to finance such current account deficit has increased. It has historically been largely financed by private sources, both FDI and loans. Since the launch of the PIP in 2011, however, the public share of the financing has significantly increased. Gross PIP disbursements are expected to represent 6 percent of GDP in 2015, a level close to the FDI inflows.

B. Exchange rate and competitiveness

3. Staff's estimates suggest that the exchange rate is moderately overvalued:

- The macroeconomic balance approach in the External Balance Assessment (EBA) is estimated on the basis of existing fundamentals and desirable policies. It points to a current account norm of -11.5 percent of GDP, given the projected current account deficit for 2015 of 16 percent of GDP. This implies an overvaluation of the exchange rate of about 14 percent.

- The macroeconomic balance in the CGER-type methodologies (which rely on medium terms fundamentals) points to a more moderate estimated REER overvaluation of 9 percent, while the CGER external sustainability approach suggests that the som is slightly overvalued by less than 1 percent.

- Finally, the purchasing power parity approach that compares the current REER value to its 10 year historical average also suggests a mild overvaluation of about 4 percent.

[1] The real effective exchange rate assessment should be interpreted cautiously due to data limitation and the high dollarization of the economy but the REER seems to be broadly in line with the fundamentals.

- Overall, the analyses suggest an overvaluation of the real exchange rate albeit with a difference in magnitude, but the recent share depreciation of the som might help the overvalued exchange rate squared.

Kyrgyz Republic: Exchange Rate Assessment[1]

Method	EBA-lite	CGER-like methodologies		
	Macroeconomic Balance	Macroeconomic Balance	External Sustaibility	Purchasing Power Parity
Current account actual (2015)	-16.0			
Current account norm (2015)	-11.5			
CA gap	4.5			
Underlying current account (2019/20)		-11.2	-11.2	
Current account norm (2019/20)		-7.2	-9.3	
CA gap		4.0	1.9	
REER Misaligment	14.0	9.0	4.4	4.3

[1] Positive numbers indicate overvaluation

4. **Nonprice competitiveness is also an issue in Kyrgyz Republic.** The political instability and the lack of electricity and infrastructure constitute an impediment to the development of the tradable sector. Moreover the business environment is weak. The 2015 World Bank Doing Business report points the difficulty to trade across borders, to get electricity and to resolve insolvency. The country needs to address these challenges and to diversify its economy to fully benefit from its accession to the EEU and attract investors.

C. Reserves adequacy

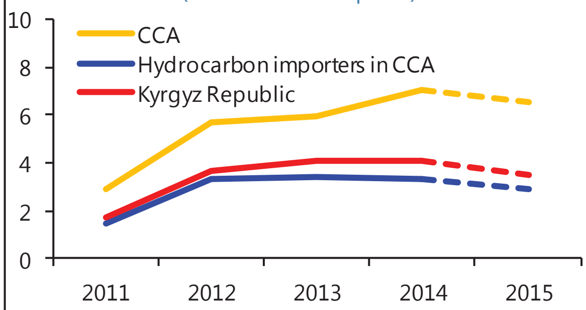
5. **Preserving the level of foreign exchange reserves calls for a further depreciation of the som against the dollar.** Indeed, while appropriately letting the som gradually depreciate, the NBKR has significantly intervened this year to smooth the volatility of the exchange rate. These interventions have depleted the foreign reserves, which are expected to cover 3.7 months of imports by the end of the year compared to a level of 4.1 months in 2014. The external shock the country is currently facing and the high dollarization of the economy call for a careful management of reserves. The 2014 level of reserve was lower than the CCA countries average but higher than the region's oil and gas importers' average level.

6. **The IMF's assessing reserve adequacy (ARA) metrics suggests that the reserve level at end–2015 remains adequate, albeit a significant drop.** The methodology balances the costs of holding reserves to its benefit in terms of crisis prevention taking into account the country's fundamentals and some potential external shocks it could faces. It estimates that the adequate level of reserves, using the 2015 fiscal deficit of 3.5 percent, varies from one to four months depending on the costs of holding reserves. Considering that the cost of holdings reserves is unlikely to be inferior to 3 percent in the Kyrgyz Republic, the current and projected reserves coverage appears to

be adequate. However, two factors call for a higher reserves coverage: (i) the model doesn't include any shock on remittances which represented about 30 percent of the Kyrgyz's GDP in 2014, and have been quite volatile in the past and are expected to fall by 20 percent in 2015; and (ii) the model doesn't take into account the high level of dollarization of the economy that increases the country's exchange rate exposure. Therefore, it is important to return to a path of a gradual reserve build up.

Level of Reserves

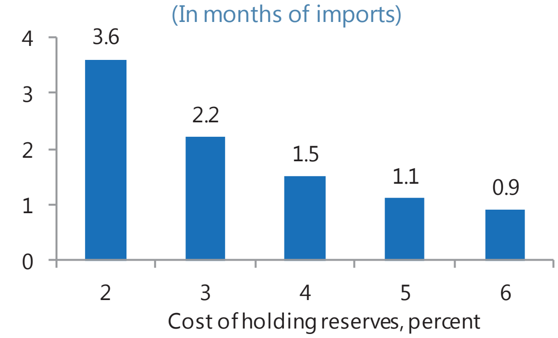
(In months of imports)



Source: IMF staff estimates.

Optimal Level of Reserves

(In months of imports)



Source: IMF staff estimates.

Appendix I. Letter of Intent

November 18, 2015

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

Dear Madame Lagarde:

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

The turbulent regional context is taking a toll on our economy. In particular, the economic decline in Russia has slashed remittances, a key source of foreign exchange and driver of domestic demand. The knock on effect on our currency from the depreciations of the Russian, Kazakh and most recently Chinese currencies elevates the risks to the financial sector and the sustainability of public debt. Growth remains modest due to decrease in gold production despite relatively good results in the rest of the economy. The central bank's tight monetary policy, together with low food and fuel prices, has kept inflation in check mitigating the effects of currency depreciation.

We remain committed to the policies and objectives supported by the ECF arrangement. Our actions ensured that all end-June 2015 quantitative performance criteria and all indicative targets were met. All but two structural benchmarks were met. The draft law for strengthening of the VAT by reducing the number of exemptions and gradually phasing of the sales tax was submitted in August instead of June. Due to protracted inter-agency deliberations, the audit of DEBRA was not finalized in October 2015. Notwithstanding the setbacks in passing the Banking Code, we remain committed to work with Parliament to enact it and have it published in the Official Gazette ("Erkin-Too") by end-September 2016.

In view of the progress made and our continued commitment to the program, as well as the recently completed safeguards assessment of the NBKR, we request completion of the first review and disbursement in the amount of SDR 9.514 million (US$13.17 million). We ask that the disbursements under the ECF arrangement be channeled to the budget.

We believe that the economic and financial policies set forth in our Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) dated March 24, 2015 supplemented by this LOI remain adequate to meet the program's objectives.

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

As in the past, the government of the Kyrgyz Republic agrees to the publication of this letter, the Technical Memorandum of Understanding (TMU), as well as of the Article IV Staff Report related to the first review under the ECF arrangement and the Debt Sustainability Analysis.

Recent economic developments

1. **Over the past months, our economy was buffeted by a wave of external shocks, including falling gold prices, falling remittances due to the economic slowdown in Russia, turbulence in regional currency markets, and uncertainty surrounding EEU accession.** Nonetheless, the economy grew at a solid 6.3 percent during the first nine months of 2015 fueled by a bumper agricultural season and solid performance in all but textile and power sectors.

2. **Twelve-month inflation slowed down during the first nine months of 2015 to 6.4 percent due mainly to low food prices.** The benefits from lower fuel import prices were partially offset by depreciation of the som against the U.S. dollar.

3. **The overall fiscal deficit reached 0.6 percent of GDP by end of June.** Revenues at 16.7 percent of GDP were better than expected, mainly due to the sale of the Geroi mining license and NBKR dividends, representing, respectively, 1.4 and 1.2 percentage points of GDP. Government expenditures were contained at 16.1 percent of GDP, mainly due to underspending on goods and services and delays in project implementation. The current account deficit narrowed over the first six months amid falling trade activity. Nongold exports and imports dropped by 26 percent and 17 percent year-on-year, respectively. Remittances fell by 28 percent year-on-year over the first nine months of 2015. While debt is expected to remain at moderate risk of distress, the som depreciation and the sharp drop in remittances is pushing the debt level closer to the threshold of high risk of distress.

4. **NBKR intervened in the foreign exchange market in order to smooth out currency fluctuations and counter speculative pressures.** By end of September net sales were US$171 million. As a result the som depreciated by 16.9 percent over the same period. These interventions have also led to further monetary tightening, with base money shrinking by 4.3 percent (year-on-year) over the first nine months of this year.

5. **Credit growth is slowing down, and as of end of September grew by 27.0 percent year-on-year.** This includes loans provided by microfinance agency FINCA which obtained a banking license earlier this year. Controlling for exchange rate depreciation credit grew by

12.3 percent over the same period. Exchange rate volatility resulted in increase of deposit dollarization to 68.3 and decrease in loan dollarization to 55.2 percent by end of September. NPLs rose to 6.0 percent of total loans by the end of September, or 9.6 percent when extended loans are included.

Outlook and risks

6. **Growth will slow in 2015 due mainly to falling gold production and the impact of external shocks.** We expect growth to pick up to an average of around 4 percent in the coming years as the Russian and Kazakh economies bottom out and the benefits from membership in the EEU begin to materialize. The PIP program and projects initiated under the Russia-Kyrgyz Development Fund (RKDF) should contribute to stabilizing growth at about 5 percent in the medium term.

7. **We expect inflation to exceed 7 percent by the end of the year, driven by the som depreciation, seasonal uptick in public spending and the impact of higher EEU import tariffs.** Over the medium term, inflation is expected to remain within the 5–7 percent range announced by the NBKR.

8. **We expect the overall fiscal deficit to reach 3.7 percent of GDP by the end of the year.** Compared to last year, tax revenues are expected to decrease by 0.8 percentage points of GDP, due to the delay in EEU accession, while current expenditures will increase by 1.1 percentage points of GDP, due to unbudgeted spending commitments. Over the medium term, the fiscal deficit will gradually decline due to fiscal consolidation and the phasing out of current PIPs.

9. **The current account deficit will reach 16 percent of GDP on account of weak external demand, falling remittances and fall in U.S. dollar value of GDP.** Access to the larger EEU market, fiscal consolidation and phasing out of PIPs will enable us to gradually reduce external imbalances.

10. **We are mindful of the risks to our outlook.** Key downside risks include, lower gold output and prices, adverse economic development in our major trading partners, protracted discussions with Centerra on Kumtor, unfavorable external debt dynamics and vulnerable financial system due to high dollarization and exchange rate volatility.

The government's policies for the remainder of the year and 2016

To keep the program on track, we will implement the necessary policies to ensure that the program's objectives are achieved. In this context, we will carry out the necessary measures to prevent budgetary slippages. We remain committed to reducing inflation and maintaining a flexible exchange rate that would allow us to preserve the NBKR's reserves. We will do our best to have the draft banking law adopted by the new parliament in a form substantially similar to the draft submitted to Parliament in September 2013. We will select an auditor for DEBRA in November 2015 and we will make sure that the audit is finalized by the first quarter of 2016.

Fiscal policy

11. Despite a challenging year, including adverse regional and domestic environment, we are committed to ensure that the end of year fiscal deficit is in line with the program target. Our second supplementary budget targets an overall deficit of 3.7 percent of GDP. However, we expect that through frugal budget execution, we will bring the deficit down to 3.5 percent of GDP. In order to meet our 2015 program commitments, we will streamline expenditures as needed and refrain from new recurring spending commitments unless these are financed by new permanent revenue measures. We also remain committed to keeping the teachers' salary increase, which came into effect in September at an estimated cost of som 2.2 billion, budget neutral.

12. We are preparing our 2016 budget in line with program targets. As per our commitment, we will resume fiscal consolidation to maintain public debt at a sustainable level, which will require us to focus on revenue enhancement and expenditure streamlining. To this end, while the overall balance will deteriorate due to the postponement of some PIP projects from 2015 to 2016, nonetheless, we will target an operating surplus of 5.9 percent of GDP. To meet this target, we will undertake a fiscal effort of at least 1.6 percentage points of GDP excluding expected EEU customs revenues which we aim to save to gradually rebuild thin fiscal buffers. In addition, to ensure that the increase in teacher's salaries stay neutral, we will improve the mechanisms of accruing and paying certain types of nontax payments, in particular payments for rent of state property, payments related to development of various mineral fields, and payments for entrance by foreign countries vehicles.

13. In order to ensure that the budget deficit target of 4.5 percent of the GDP is met, we are committed to implementing the following measures:

- Strengthening the administration of the VAT with a view to reducing tax evasion towards broadening the tax base and streamlining exemptions;

- Raising excise tax rates on alcohol and tobacco products as part of the process of their harmonization with the EEU rates;

- Refraining from extending expiring exemptions or granting new ones;

- Introducing similar stamps for domestically produced goods for control and accounting purposes aimed at preventing counterfeit production, in order to harmonize the regulations regarding the movement of goods within the EEU; and

- Adding luxury tax components to the property tax by applying higher rates or step-up coefficients.

14. The following expenditures measure will be carried out to meet the deficit target:

- Reducing the wage bill by, among others, rationalizing support staff, and refraining from ad hoc wage increases. We will also identify additional measures that would ensure that the teachers' salary increase is budget neutral. Additionally, in the context of the review of wage bill, we will set up an action plan, in view of the findings of the forthcoming FAD TA mission, to decrease the wage bill to about 8 percent of GDP over the medium term (structural benchmark, May 2016);

- Maintaining spending on goods and services constant in nominal terms and refraining from any ad hoc measures.
- Reducing the subsidies and transfers budget line to about 3 percent of GDP. To this end we will conduct a review of subsidies and draw-up an action plan to reduce them (structural benchmark, June 2016).
- Continue to improve the targeting of social benefits and avoiding their duplication.
- Keeping domestically financed capital spending around 3 percent of GDP.

15. We are determined to strengthen tax collection. Following accession to the EEU, VAT and excise collections for imported goods shifted from customs services to the state tax services (STS). In addition, the National Statistics Committee functions of state registration of individual entrepreneurs will be transferred to the STS. The STS will conduct a pilot testing of collecting social contributions for two districts in 2016 (instead of being collected by the social fund). If the results are positive, the STS will take over the overall collection of the social contributions. In order to avoid negative impact on tax collection, we will ensure proper staffing of the STS by transferring staff from other agencies while keeping the total volume of public sector employees unchanged.

16. We are committed to maintain debt at sustainable level. The recent depreciation of the som has exacerbated our debt vulnerability bringing us to the borderline of high risk of debt distress. We are committed to maintain public external debt to sustainable level over the medium term. In the period ahead, we will be particularly cautious with our borrowing plans. To that effect, we will introduce an action plan to improve the quality and efficiency of the public investment process in view of the findings of the forthcoming Public Investment Management Assessment mission (structural benchmark, April 2016). Additionally, we will: (i) revise the Medium Term Debt Strategy in line with the outcome of the new DSA (structural benchmark, July 2016); (ii) continue to fully disclose borrowing plans and commitments; (iii) improve debt monitoring, to minimize fiscal risk stemming from SOEs; and (iv) refrain from nonconcessional borrowing. In light of the Fund's new debt limit policy, we will adhere to the quantitative performance criteria (QPCs) on the present value (PV) of new external debt contracted. In addition given out debt vulnerability we request an indicative target (IT) of zero nonconcessional borrowing. In preparation for the heating season and as an exception in light of adverse weather condition, one of our SOEs, JSC "Electric Stations" will borrow a non-concessional US$30 million loan from the Eurasian Development Bank to pay for fuel and service liabilities.

Monetary and exchange rate policy

17. **We will focus on containing inflation within our target range of 5 to 7 percent in the medium term, while preserving financial system stability.** We will maintain the policy rate positive in real terms and adjust its level in line with emerging inflationary and exchange rate pressures. We will continue to employ all available instruments, while balancing it against the trade-off of the financial sector health. Moreover, the NBKR and the ministry of finance will continue our close coordination to facilitate liquidity management.

18. **We will concentrate our efforts on enhancing the transmission mechanism and promoting the interbank market.** To strengthen the interest rate channel, we will aim to narrow the corridor around the policy rate and make it symmetric. At the same time, we will also undertake measures to deepen the interbank market by: (i) maintaining liquidity at a level that provides incentive for interbank trading; (ii) allowing NBKR notes to be used as collateral in the interbank market; and (iii) further improving NBKR's communication about the monetary policy stance.

19. **We will continue to pursue a flexible exchange rate policy in order to reduce external imbalances and safeguard foreign exchange reserves.** We carry out interventions in the foreign exchange market only to smooth excessive fluctuations. In this context we will carefully monitor the tightening effect of our foreign exchange interventions to avoid stifling credit activity and harm growth. We will also work to further reduce speculative pressures on the exchange rate by enhancing our communication, strengthening regulation of exchange bureaus and eliminating unlicensed banking operations and foreign exchange activity. Parliament rejected amendments to the code on administrative responsibility increasing penalties for unlicensed banking operations including foreign exchange activity. We will resubmit these amendments to the new parliament (structural benchmark, February 2016).

Financial sector

20. **The Government and NBKR remain committed to make every effort to enact the Banking Law in a form substantially similar to the draft submitted to parliament in September 2013.** In June 2015, parliament passed the first reading of the Banking Code but downgraded it to a law. However, the second and third readings were not completed due to the lack of quorum in the run-up to the October elections. The government and the NBKR will work with the new parliament to ensure the enactment and publication in the Official Gazette ("Erkin-Too) of the draft banking law and the supporting law on "enacting the banking law" (structural benchmark, September 2016). Should the new parliament chose to restart the process, we will resubmit the code in line with the September 2013 draft. We understand that progress in that area would be necessary to move forward with the program and will inform IMF staff on any proposed amendments.

21. **We will make every effort that the new banking legislation is consistent with international best practice and meets the following criteria:** (i) can only be superseded by the Constitution or Constitutional Laws which may require reviewing all existing codes, identifying the ones that need to be amended and passing the relevant amendments; (ii) preserves the autonomy

of the NBKR; (iii) improves the framework for early intervention and resolution of problem banks; (iv) enhances legal protection for the NBKR staff; (v) limits the scope of judicial review for decisions taken by the NBKR with respect to license revocation and bank resolution; (vi) establishes the NBKR as the sole authority to hold and manage official foreign reserves; (vii) extends the term of engagement of the NBKR external auditors; and (viii) strengthens the internal oversight of the NBKR.

22. We will continue our efforts to preserve financial sector stability and reduce dollarization, relying exclusively on market-based measures. We are analyzing the impact of the macro-prudential measures introduced in May 2015 with a view to fine-tuning them as necessary. We have set higher reserve requirements on foreign exchange deposits. In addition, we will consider and if deemed necessary introduce regulation to restrict foreign exchange lending to borrowers with less than 50 percent of their income in foreign currency. At the same time, we are: (i) continuing to strengthen banking sector supervision by developing a strategic plan to build supervisory capacity and to provide for a robust supervisory program, including risk based supervision; (ii) conducting crisis simulation exercise by March 2016 and developing crises preparedness framework together with Ministry of Finance and Deposit Protection Agency (structural benchmark, September 2016); (iii) enhancing the model for macro-financial stress testing; and (iv) closely monitoring banks, particularly those with large exposure to trade, construction, mortgage, and consumer loans. Moreover, to avoid destabilizing the banking sector we will rely exclusively on market based measures.

23. We will facilitate the sharing of credit information. In this context, we will give our best efforts to adopt supporting amendments to other laws to enact the Law on Credit Information Sharing. We will ensure that state registration service and state tax service exchange information with credit bureau, as this will provide the complete and best information to credit issuers.

24. We will accelerate efforts to resolve all problem banks to enhance confidence in the banking system. Given the divergence of views between different government agencies we were not able to finalize the DEBRA audit on time. However, we remain fully committed to completing this audit including all banks under DEBRA's management with a goal of liquidating them and winding down DEBRA's assets. Following the successful launch of the audit tender we will select an auditor in November 2015 (prior action) and aim to finalize the audit during the first quarter of 2016 (structural benchmark, March 2016).

25. We are committed to strengthening and implementing an AML/CFT regime in line with international standards. While the outgoing Parliament rejected the previous draft of the AML/CFT law, we will submit a new draft AML/CFT law that reflects all the recommendations provided by the Fund to the new Parliament (structural benchmark, April 2016). Timely action through the submission, adoption and entry into force of the law should contribute to a positive assessment of the national AML/CFT system Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) in October 2016.

26. The Russia Kyrgyz Development Fund (RKDF) commenced operations as an international organization. Two loans totaling som 1.2 billion were granted to two state owned banks—Aiyl and RSK for on-lending. We expect the fund's activities to provide a boost to the economy, particularly at this critical juncture. Through our representatives at the Board of the Fund, we will ensure that RKDF will continue to follow international best practice for development banks and institutions and carries out its activities without causing market distortions. We will continue to maintain a level playing field among the various agents operating the financial-investment space. We will make sure that neither the government, nor the NBKR are liable for obligations (including guarantees) of the RKDF, and vice versa.

Institutional and structural reforms to ensure board based growth

27. We recognize the need to further improve the business environment, a key pillar of sustainable and inclusive growth. Improving business and investment climate is essential if we are to realize the full benefits from EEU membership. In this context we will redouble our effort to address weaknesses identified by among others the World Bank Doing Business report by: (i) removing obstacles to starting a business by streamlining the licensing process; (ii) streamlining tax and other inspection regimes; and (iii) streamlining property registration and establishing a unified and transparent procedure for access to utilities including the power grid. We will undertake a review of the tax regime aimed at ensuring simplicity, fairness and equal treatment of all tax payers, a precondition for reducing the shadow economy. We will put all our efforts toward a constructive resolution of the dispute with Centerra to ensure that it does not lead to disruptions in gold production. A stable and predictable investment climate with proper contract enforcement, strong property rights, less red tape and corruption are essential for attracting investment and spurring private sector-led growth.

28. We will continue our effort to reform the energy sector with the aim of improving service delivery and putting it on sound economic footing. In this context, we are: (i) reviewing the regulatory framework to clarify roles and responsibilities; (ii) enhancing policy planning and management and establishing a national power clearance center to improve coordination among the various actors; (iii) working to improve internal controls, introducing management information systems (MIS) at power companies, and rolling out smart power meters; (iv) reviewing the methodology for setting power tariffs to ensure economic soundness, and implementing the plan for increasing tariffs (structural benchmark, August 2016) and developing targeting social protections; and (v) continuing reforms in the power sector and improving conditions for private sector investment.

29. PFM Reforms will remain our top priority. We continue to press ahead with PFM reforms and will shortly agree to a new Multi Donor Trust Fund arrangement. The integration of the automated national treasury system with the interbank payments system, which is a requirement for the Treasury Single Account (TSA) system, is being tested and became operational as of October 1, 2015 for customs receipts. The implementation of the TSA for all transactions would speed up the launching of the new Financial Management Information System (FMIS). To that effect, a Memorandum of Co-operation with TIKA, the Turkish Cooperation and Coordination Agency to finance the new FMIS will be signed in the second quarter of 2016 (structural benchmark, June 2016). We will work to develop a methodological framework for budgetary risks, with the help of the IMF TA. We remain committed to extend treasury coverage to the Social Fund with the implementation of the FMIS and to make every effort to ensure the enactment by Parliament of a budget code that is consistent with IMF and World Bank advice.

30. We are committed to pursue trade liberalization to enhance efficiency and strengthen growth prospects. The country officially became a member of the Eurasian Economic Union (EEU) in August 2015. We remain committed to implementing the EEU commitments for promoting trade with regional countries. Also, our government will continue to pursue greater regional economic and social integration, and advocate for further steps to open up the country with a view to enhancing competition and efficiency.

Program monitoring

31. The ECF-supported program will continue to be monitored through prior actions, quantitative performance criteria, continuous performance criteria, indicative targets, and structural benchmarks. Prior actions and structural benchmarks are set out in Table 1. Quantitative performance criteria (QPC) for December 2015 and June 2016 and indicative targets (IT) for December 2015, March, June and September 2016 and continuous performance criteria 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 second review is expected to be completed before June 30, 2016 based on continuous and end-December 2015 QPC. The third review is expected to be completed before December 31, 2016 based on continuous and end-June 2016 QPC. The fourth review is expected to be completed before June 30, 2017 based on continuous and end-December 2016 QPC. The understandings between the Kyrgyz authorities and IMF staff regarding the quantitative performance criteria and structural benchmarks described in this LOI and reporting requirements are further specified in the attached Technical Memorandum of Understanding (TMU).

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

/s/

Temir Sariev
Prime Minister of the Kyrgyz Republic

/s/

Adylbek Kasymaliev
Minister of Finance of the
Kyrgyz Republic

/s/

Tolkunbek Abdygulov
Chairman of the National Bank of the
Kyrgyz Republic

Table 1. Kyrgyz Republic: Prior Action and Structural Benchmarks Under the Extended Credit Facility

Measures	Timing	Status
Prior Action		
Appoint an auditor for the DEBRA audit		
Structural Benchmarks		
I. FISCAL POLICY		
Elaborate a MTDS including the following criteria: (i) restrict borrowing to projects which enhance growth and promote social developments (ii) maintain debt at sustainable levels, and (iii) ensure that borrowing is anchored in the medium-term fiscal framework and is consistent with macroeconomic stability.	End-April 2015	**Met.** The department of public debt of the MOF elaborated a MTDS, which was approved by the government decree #424 dated June 29, 2015 to improve debt management.
Undertake a review of the public investment framework in cooperation with development partners and line ministries to identify gaps and then define an action plan.	End-April, 2016	**Rescheduled.** An IMF TA mission will undertake a PIMA during the first half of 2016.
Submit to parliament a draft tax law on (i) strengthening the VAT by reducing the number of exemptions, (ii) gradually phasing out the sales tax; (iii) gradually limiting the use of the patent system; (iv) adopting a simplified recordkeeping and reporting requirements.	End-June, 2015	**Partially Met.** In August, the government submitted a draft law to parliament on strengthening the VAT by reducing the number of exemptions on processing food and agriculture products, and gradually phasing out the sales tax. Additionally, in June, the government issued a resolution to gradually limit the use of patent system from 125 to 110 activities and in May, a law was adopted to simplify recordkeeping and reporting requirements by switching the monthly reporting requirements to quarterly for small businesses.
Draw an action plan for the reform of public sector personnel and remuneration policy to reduce the wage bill as a share of GDP.	End-May, 2016	**Rescheduled.** An IMF TA mission will take place in the first half of 2016 to identify an action plan for the reform of the public sector employment/wage policy.
Revise the MDTS in light of the outcome of the new DSA.	End-July, 2016	**New**
Reorganize the institutional structure of the tax service reducing duplication of functions with respect to interregional tax service departments.	End-April, 2015	**Met.** The STS streamlined its structure by eliminating the 3 interregional offices, leaving operational the headquarters' office and the district offices.
Select a provider for integrating the automated national treasury system with the interbank payment system.	End-September, 2015	**Met.** The government selected the "Info Systema" company as a provider for integrating the automated national treasury system with the interbank payment system in July, 2015.
Conduct a review of subsidies and draw-up an action plan to reduce them.	End-June, 2016	**New**
Sign a Memorandum of Co-operation with TIKA, the Turkish Cooperation and Coordination Agency, to develop new Financial Management Information System.	End-June, 2016	**New**
Review the methodology for setting power tariffs to ensure economic soundness and adjust accordingly the roadmap for increasing tariffs.	End-June, 2016	**New**
II. FINANCIAL SECTOR		
Finalize the audit of DEBRA.	End-October, 2015	**Not met.**
Set higher reserve requirements for foreign exchange deposits than for domestic currency deposits.	End-October, 2015	**Met.** The reserve requirement for foreign currency deposits is 9.5 percent, while for som deposits is 8.5 percent.
Submit to parliament a draft amendment to the code for administrative responsibility increasing the penalty for unlicensed foreign exchange activity to som 50,000 for individuals, som 100,000 for corporate officers, and som 200,000 for legal entities.	End-May, 2015	**Met.** The NBKR submitted amendments to the code for administrative responsibility to parliament in May 2015.
Issue a decision to harmonize the standard minimum capital requirement by gradually raising banks' paid-in capital in three steps by 2017.	End-May, 2015	**Met.** The NBRK issued a decision to harmonize capital requirements on March 11, 2015 which became effective on March 26. 2015. All the banks have minimum capital above som 300 million as July 1, 2015. The minimum capital requirement will increase to som 400 million, as of July 1, 2016 and to som 600 as of July 1, 2017.
Resubmit to Parliament amendments to the code for administrative responsibility aimed at increasing penalties for unlicensed foreign exchange activity.	End-February, 2016	**New**
Submit a new draft AML/CFT law that reflects all the recommendations provided by the Fund as well as other donors to the new Parliament.	End-April, 2016	**New**
Finalize the DEBRA audit.	End-March, 2016	**New**
Enact and publish in the Official Gazette ("Erkin-Too") the banking law and the supporting law on "enactment of the banking law".	End-September 2016	**New**
Develop crisis preparedness framework (collaboration among the NBKR, MoF and Deposit Protection Agency).	End-September, 2016	**New**

Table 2. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, June 2015 – December 2016

	2015							2016			
	June				September	December		March	June	September	December
	QPC				IT	QPC		IT	QPC	IT	QPC
	Prog	Adj	Actual	Status	CR15/113	CR15/113	Revised				
Quantitative performance criteria 1/											
1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars)	1,371	1,327	1,680	Met	1,349	1,325	1,103	948	930	894	791
2. Ceiling on net domestic assets of the NBKR (eop stock)	-10,127	-11,948	-25,505	Met	-10,583	-14,200	-24,195	-20,222	-23,670	-20,209	-8,852
3. Ceiling on cumulative overall deficit of the general government 2/	19,441	9,878	-2,690	Met	22,189	18,062	15,304	-12,134	-20,883	-22,201	-21,799
4 a. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/	0	0	0	Met	0	0	na	na	na	na	na
4 b. Present Value of new external debt contracted or guranteed (in millions of US do	na	na	na		na	na	64.7	226.1	226.1	226.1	226.1
5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	Met	0	0	0	0	0	0	0
Indicative Targets 1/											
1. Ceiling on reserve money	72,121	72,121	65,063	Met	70,313	65,279	69,145	68,256	68,256	69,541	74,620
2. Cumulative floor on state government tax collections 2/	36,821	36,821	37,955	Met	61,345	92,361	87,009	19,639	42,498	71,109	107,091
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit and Monthly Social Benefit programs 2/	2,161		2,161	Met	3,286	4,412	4,412	1189	2,377	3,615	4,853
4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/	na		na		na	na	30	0	0	0	0

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ As defined in the TMU.

2/ Cumulative from the beginning of the year.

3/ External debt contracted or guaranteed with a grant element of less than 35 percent.

Attachment I. Technical Memorandum of Understanding

November 18, 2015

Introduction

This memorandum defines the quantitative performance criteria, indicative targets and adjustors, and establishes the content and frequency of the data to be provided to IMF staff for program monitoring related to the economic program supported by an arrangement under the Extended Credit Facility (ECF). The indicators presented in Table 2 of the Letter of Intent dated November 18, 2015 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

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

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

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

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

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

The stock of **external payment arrears** for program monitoring purposes is defined as the end-of-period amount of external debt service due and not paid within the grace period specified in the relevant debt contract, including contractual and late interest. For arrears to exist, a creditor must claim payment of amounts due and not paid. Amounts in dispute are not considered arrears. Arrears for which a clearance framework/rescheduling or restructuring has been agreed with the creditor are not considered arrears for program monitoring purposes. Program arrears would include any debt service due under such agreements that have not been paid.

Concessional and nonconcessional debt. Concessional debt is defined as debt with a grant element equivalent of 35 percent or more. The grant element of a debt is the difference between the present value (PV) of the debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent. The debt refers also to commitments contracted or guaranteed and for which value has not been received. The calculation of 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.

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

Valuation changes (program exchange rates). For program monitoring, U.S. dollar-denominated components of the NBKR's balance sheets will be valued at the program exchange rates. The program exchange rate of the KGS to the U.S. dollar is set as of February 17 of 2015 exchange rate of KGS 60.7523 = US$1. The corresponding cross exchange rates and program gold price for the duration of the program are provided in Table 2.

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

B. Quantitative performance criteria

Floor on net international reserves of the NBKR in convertible currencies

Definitions

Net international reserves (NIR) of the NBKR. The floor on NIR will be calculated as the difference between total international reserve assets and total international reserve liabilities of the NBKR in convertible currencies. Total international reserve assets of the NBKR are defined as the NBKR holdings of monetary gold, holdings of SDRs, reserve position in the IMF, and any holdings of convertible foreign currencies in cash or with foreign banks, and debt instruments issued by nonresidents that are liquid. For program purposes, convertible foreign currencies refers only to: US dollar, Euro, British Pound, Japanese Yen, Swiss Franc, Australian Dollar and Canadian Dollar. Accrued interest on deposits, loans, and debt securities are included in reserve assets and liabilities, correspondingly. Reserve assets pledged as collateral or otherwise encumbered, capital subscriptions in foreign financial institutions, deposits of resident financial institutions (commercial banks and deposits earmarked for the Russian-Kyrgyz Development Fund) in foreign currency and illiquid assets of the NBKR are excluded from NIR. Also excluded are net forward positions, defined as the difference between the face value of foreign-currency denominated the NBKR off-balance sheet claims on nonresidents and foreign currency obligations to both residents and nonresidents. Total international reserve liabilities of the NBKR in convertible currencies are defined as the sum of Kyrgyz Republic's outstanding liabilities to the IMF and other convertible currency liabilities to nonresidents with an original maturity of up to and including one year. NIR is not affected when foreign assets are received by the NBKR through foreign currency swaps with resident financial institutions. Total international reserves and NIR decline with the provision of foreign assets by the NBKR through foreign currency swaps with resident financial institutions[2]. For program monitoring purposes, total international reserve assets and liabilities will be valued at the program exchange rates as described in paragraph 9. Thus calculated, the stock of net international reserves in convertible currencies amounted to US$1,230 million on September 30, 2015.

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

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

Adjustors

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

Ceiling on the net domestic assets of the NBKR

Definitions

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

Thus defined, NDA consist of: (a) net claims to the general government from the NBKR; (b) net claims to other depositary corporations by the NBKR; (c) net claims on other financial corporations; and (d) all other net assets of the NBKR (other items net). Thus defined, the stock of NDA amounted to minus KGS 36,686 million on September 30, 2015.

Adjustors

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

Ceiling on the cumulative overall cash deficit of the general government

Definitions

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

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

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

- Net transactions in equity, i.e., any new sales net of purchases of shares;

- Net foreign loans disbursed to the general government for budgetary support; and

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

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

Adjustors

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

Ceiling on the PV of new external debt contracted, contracting or guaranteeing of new non concessional external debt, and accumulation of new external payment arrears by the public sector (continuous quantitative performance criteria).

Definitions

Debt. In connection with the contracting or guaranteeing of short-, medium-, and long-term external debt by any entity of the public sector, for program purposes, the definition of debt is set out in Executive Board Decision No. 6230–(79/140), as amended by Decision No. 15688–(14/107), point 9, adopted December 5, 2014, and reads as follows:

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

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

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

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

- 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.

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

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

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

A performance criterion 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 the NBKR international reserve liabilities.

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

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

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

C. Indicative targets

Ceiling on reserve money

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

Cumulative floor on state government tax collections

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

Cumulative floor on state government spending on targeted social assistance

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

Reporting Requirements Under the Arrangement

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

D. Analytical balance sheet of the NBKR

The NBKR will provide to the IMF its analytical balance sheet on a daily basis. The information provided will clearly identify the following items in the definitions specified above: the net foreign assets of the NBKR; the net international reserves of the NBKR; total reserve assets and total reserve liabilities of the NBKR ; the net domestic assets of the NBKR; net credit from the NBKR to the general government, disaggregated by state government and special funds of the KR; net credit from the NBKR to other deposit corporations and other financial corporations (including Russian-Kyrgyz Development Fund); other items net; and reserve money. The balance sheet will be provided using both actual and program exchange rates. The above information will be provided to the IMF Resident Representative and/or transmitted by e-mail to the IMF.

E. Monetary survey

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

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

F. International reserves and key financial indicators

The NBKR will provide monthly data within 20 days from the end of the month on its gross and net international reserves within the framework of reporting "International Reserves and Foreign Currency Liquidity" (IMF's SDDS). The report on foreign assets and liabilities by currency will be provided 20 days after the end of each quarter. These data will be provided at two alternative sets of the exchange rates and the gold price: first, at those used to derive the NFA position in the NBKR accounts; and second, at those specified in the program (see Section I). The NBKR will also provide data on net foreign financing flows, including disbursements of program loans and grants, amortization, interest payments on external debt, interest income on reserves, other direct foreign currency payments by the government and the NBKR. In addition, reports should be sent to the IMF on nominal exchange rates (including the official and interbank exchange rates), foreign exchange interbank market turnover, and the volume of the NBKR foreign exchange sales and purchases in the domestic interbank market and with other parties, on a daily basis. Reports on treasury bill yields and the amount of treasury bill sales and redemptions on a weekly basis every Monday. On the twenty-fifth day of the month following the reference month, the NBKR will provide indicators of financial soundness of the banking system, including the ratios of regulatory capital to risk-weighted assets, nonperforming loans to total loans, non-performing loans by sector and by currency, restructured and prolonged loans by sector and by currency, return on equity, liquidity, earning and profitability, loans and deposits ratios in domestic and foreign currency, foreign currency exposure and dollarization as well as data on bank deposits and loans by maturity and sector, and bank deposit and lending rates by maturity. On the twentieth day of the month following the reference quarter the NBKR will provide data on non-performing loans for micro-finance organizations and credit unions.

G. External debt

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

H. Budgetary and extra budgetary data

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

I. Balance of payments data

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

J. Other general economic information

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

Table 1. Ten Largest SOE's

(Included in the public sector)

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

Sources: Authorities data and IMF staff calculations.

Table 2. Program Cross Exchange Rates and Gold

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

Sources: Authorities data and IMF staff calculations.

Table 3. Projected Budget Support, PIP, and Amortization

	2015	2016			
	December	March	June	September	December
Program grants	47.1	0.0	25.7	8.8	5.5
Program loans	38.1	0.0	15.5	13.2	13.8
Grants in-kind	32.3	28.8	28.8	28.8	28.8
PIP grants excl. grants in-kind	32.8	25.2	25.2	25.2	25.2
PIP grants incl. grants in-kind	65.1	53.9	53.9	53.9	53.9
Other grants	0.0	0.0	0.0	0.0	0.0
PIP loans	274.2	154.3	154.3	154.3	154.3
PIP loans, excl. onlending	176.7	21.9	21.9	21.9	21.9
Amortization of public external debt	18.6	34.3	34.3	34.3	34.3
Interest payments	12.2	13.1	13.1	13.1	13.1

Table 4. Reporting Requirements and Frequency Under the Arrangement

Reporting Agency	Data	Frequency	Timing
NBKR	Analytical balance sheet of NBKR at actual and program exchange rates	Daily	The following working day
NBKR	Monetary surveys of the banking sector and other depository corporations at actual and program exchange rates	Monthly	Within 16 days of the end of each month
NBKR	The amount of holdings of treasury bills, treasury bonds and other securities issued by the state government	Monthly	Within 7 days of the end of each month
NBKR	The gross and net international reserves Net foreign financing flows	Monthly	Within 20 days of the end of each month
NBKR	Reserve composition by currency and instrument	Quarterly	Within 10 days of the end of each quarter
NBKR	Nominal exchange rates Foreign exchange interbank market turnover Volume of NBKR foreign exchange sales and purchases in the domestic interbank market on a daily basis	Daily	The following working day
NBKR	Treasury bill yields and the amount of treasury bill sales and redemptions, and operations with other parties	weekly	Every Monday
NBKR	Balance sheet and income statement of banks (aggregated); data on capital assessment of the commercial banks and the data on the main factors of the loan portfolio's growth of the banking system and separately of the group of banks with a significant share of the Kazakh capital	Monthly	Within 25 days of the end of each month
NBKR	Balance sheet and income statement by individual bank and banking groups; sectoral distribution of loans and NPLs by currency and by bank; restructured and renewed loans; largest exposures by bank; loan classification by banks and by groups;	Monthly	Within 25 days of the end of each month
NBKR	Nonperforming loans for microfinancing organization and credit unions	Quarterly	Within 20 days of the end of each quarter
NBKR	Indicators of financial soundness of the banking system (capital adequacy, liquidity, asset quality, earning and profitability, loans and deposits ratios, foreign currency exposure and dollarization)	Monthly	Within 25 days of the end of each month
MOF	Revenues, expenses , net lending and on-lending of financial assets and liabilities of the central government	Monthly	Within 26 days of the end of each month
MOF NBKR	Disbursements, principal and interest payment (external debt) Contracting and guaranteeing of medium- and long-term external loans	Monthly	Within 21 days of the end of each month
MOF	Details (amount, currency, and financing terms) on new loans contracted on public external debt, including SOEs.	Quarterly	Within 25 days of the end of each quarter
Social Fund	Social Fund operations report	Monthly	Within 26 days of the end of each month
MOF	Disbursements and use under the public investment program, budgetary grants, and grants in kind.	Monthly	Within 30 days of the end of each month
NBKR	Current account and capital account data	Quarterly	Within 90 days of the end of each quarter
NBKR	Foreign trade data	Monthly	Within 60 days of the end of each month
NBKR	Remittances by country of origin and currency.	Monthly	Within 45 days of the end of each month
NSC	Consumer Price Index by category	Monthly	Within 15 days of the end of each month
NSC	GDP	Monthly	Within 30 days of the end of each month

INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

November 19, 2015

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

CONTENTS

RELATIONS WITH THE FUND

(As of September 30, 2015)

Membership status: Joined: May 08, 1992 Article VIII

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

SDR department:	**SDR million**	**% Allocation**
Net cumulative allocation	84.74	100.00
Holdings	128.29	151.40

Outstanding purchases and loans:	**SDR million**	**% Quota**
ESF Arrangements	24.98	28.13
RCF Loans	22.20	25.00
ECF Arrangements	84.11	94.72

Latest financial arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Apr 07, 2015	Apr 07,2018	66.60	9.51
ECF	Jun 20, 2011	Jul 07, 2014	66.60	66.60
ESF	Dec 10, 2008	Jun 09, 2010	17.76	33.30

1/ Formerly PRGF.

Projected payments to Fund 2/

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

	Forthcoming				
	2015	2016	2017	2018	2019
Principal	4.98	14.97	18.27	20.68	17.52
Charges/Interest	0.00	0.00	0.03	0.02	0.15
Total	4.98	14.97	18.30	20.69	17.67

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

Status of HIPC and MDRI assistance

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

Safeguards assessments

An update assessment with respect to the new ECF approved by the IMF Board on April 8, 2015 was completed on October 5, 2015. The assessment concluded that the National Bank of the Kyrgyz Republic (NBKR) continues to have significant vulnerabilities in the legal structure, particularly in governance arrangements. The audit committee's authority remains limited, as it only has an advisory role vis-à-vis the NBKR Board. Further, accountability mechanisms, including the external and internal audits are in need of improvement. The NBKR, in coordination with the government, should actively pursue and advocate the prompt enactment of the Banking Law. Previous assessments were completed in October 2011, April 2009, October 2005, and January 2002.

Exchange rate arrangements

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

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

Article IV consultations

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

FSAP participation and ROSC assessment

An FSAP update mission in July 2013 reviewed progress since the 2007 assessment, and the Board discussed the Financial System Stability Assessment (FSSA) along with the fifth ECF review in December 2013. The FSSA was not published. A fiscal ROSC mission was held in March 2001 and the ROSC Fiscal Transparency Module was published on March 13, 2002. A data ROSC mission was held in November 2002 and the ROSC Data Module was published in November 2003. A fiscal ROSC reassessment was held in September 2007.

Resident representative

The tenth resident representative of the Fund in the Kyrgyz Republic is in the process of being selected. The selected candidate should be in place early next year.

RELATIONS WITH THE WORLD BANK GROUP

(As of September 28, 2015)

World Bank Group strategy: The CPF for FY14–17: The joint WB/IFC CPF was reviewed by the Board on July 25, 2013. Its strategic goal is to help reduce extreme poverty and promote shared prosperity through support for improved governance. This governance-oriented approach focuses on three dimensions of the relationship between the state and the citizen, which correspond to three broad areas of engagement—public administration and public service delivery, business environment and investment climate, and the management of natural resources and physical infrastructure. IFC's role in the WBG Country partnership Strategy for the Kyrgyz Republic is to support the development and diversification of the private sector, contributing to country's greater competitiveness, and improving employment opportunities.

Since the Kyrgyz Republic joined the World Bank in 1992, the Bank has approved US$1.3 billion for International Development Association (IDA)-funded projects and Recipient Executed Trust Funds (RETFs), out of which US$1.1 billion has been disbursed. To date, 47 IDA investment operations for US$1 billion have been completed and closed. The Kyrgyz Active Portfolio includes 10 IDA projects and 18 RETFs for a total amount of US$258.3 million. From 1992 until 2000, the Kyrgyz portfolio had a significant focus on budget support; since 2001, however, there has been a gradual shift toward investment projects till 2010. To achieve macroeconomic stability in the country after political turmoil in April 2010, the Kyrgyz Government requested the Bank to provide budget support. There have been three budget support operations since the July 2010 Donors Conference and the multiyear programmatic budget support program is envisioned till FY17.

IDA financed operations: Under the CPF, the following operations were delivered in FY15: the Electricity Supply Accountability and Reliability Improvement Project (US$25 million equivalent), the Pasture and Livestock Management Improvement Project (US$15 million equivalent), the Third Village Investment Project (US$12 million equivalent), and the Energy Sector Development Policy Operation (US$24 million equivalent). The latter was not scheduled under the CPF, but was delivered in January 2015 in response to the Kyrgyz Government request for urgent support in addressing the recurrent winter energy shortages.

The following operations are planned to be delivered in FY16: the Governance and Competitiveness Development Policy Operation (US$24 million equivalent), the Integrated Forest Ecosystem Management Project (US$12 million equivalent), the Urban Development Project (US$12 million equivalent), the Rural Water Supply and Sanitation Project 3 (US$13 million equivalent), and the Integrated Dairy Productivity Improvement Project (US$5 million equivalent).

Trust funds: In addition to the IDA portfolio, the Kyrgyz program includes a significant number of cofinancing and stand-alone trust funds (TFs). Currently, the RETFs Portfolio has a total value of about US$95 million, out of which US$41 million has been disbursed. Three sectors—Health, Education, and Water—receive most of the TFs. The largest trust funds are the Swiss TF for Kyrgyz

Second Health and Social Protection Project (US$11.9 million equivalent), Kyrgyz Health Results Based Financing (US$11 million equivalent), National Water Resources Management Project (US$7.8 million equivalent), and Kyrgyz Global Partnership for Education (US$12.7 million equivalent). TFs are mainly provided to co-finance IDA operations and to support capacity-building activities. The main contributors to the TFs have been Switzerland and Russia.

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

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

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

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

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

RELATIONS WITH THE ASIAN DEVELOPMENT BANK (ADB)

(As of October 1, 2015)

The Kyrgyz Republic joined ADB in 1994. ADB approved the current Country Partnership Strategy (CPS) 2013–17 for the Kyrgyz Republic in August 2013. The CPS is aligned with the National Sustainable Development Strategy, 2013–17 approved by the President of the Kyrgyz Republic in January 2013 (NSDS). The overarching goal of the CPS is poverty reduction through inclusive economic growth. The CPS supports the government in addressing key constraints to growth and equitable access to economic opportunities. It focuses on: (i) public sector management for private sector development; (ii) transport and logistics, focusing on rehabilitation of a regional corridor and maintenance of the road network.; (iii) the energy sector, focusing on rehabilitating and upgrading a major hydropower plant, and institutional and technological reform to improve sector efficiency; (iv) education and training, focusing on improvement of the availability and quality of a skilled workforce, and employability of the population; and (v) water supply and sanitation (WSS), responding to the government's request and commitment to sector reform. ADB has been active in these areas and within each sector will focus more strongly on addressing regional disparities. The Country Operations Business Plan 2016–18 was endorsed by the Board in September 2015.

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

As of 1 October 2015, the country has received 38 loans worth US$961.7 million, 26 ADF and one GEF grants worth US$474.1 million. The Kyrgyz Republic has also received eight grants from Japan Fund for Poverty Reduction (JFPR grants) amounting to US$8.5 million.

ADB is the largest funding agency in the transport, energy and public sector management sectors. Four new projects, namely: Investment Climate Improvement Program, Subprogram 3 for US$22 million, Strengthening Education System Sector Development Program and Project, for US$10 million and US$12 million grant respectively, Toktogul Rehabilitation Phase 2 Project for US$110 million (US$65.5 million loan and US$44.5 million grant), CAREC Transport Corridor I (Bishkek-Torugart Road) Project 3—additional financing for US$15.1 million (US$10.8 million loan and US$4.3 million grant) were approved in 2014. This year, CAREC Corridors 1 and 3 Connector Road Project Design Advance (PDA) for US$3 million and a Second Investment Climate Improvement program (ICIP), Subprogram 1 for US$20 million were approved.

As of 1 October 2015, the active portfolio included 12 projects totaling US$605.3 million which are being implemented through 10 ADF loans (US$307.2 million) and 14 ADF grants (US$298.1 million) and one grant financed by the Japan Fund for Poverty Reduction grant (US$1.5 million).

ADB has also provided 89 technical assistance (TA) projects amounting to US$51.5 million as of today. ADB also provides TA through the regional technical assistance facility. Among the most recent assistance is technical assistance for developing an e-procurement strategy for the Kyrgyz Republic, Support for Strategic Assessment of the Kyrgyz Economy, and Strengthening Government Capacity for Managing Development Projects. A project Preparatory TA for Central Asia Regional Economic Cooperation Corridors 1 and 3 Connector Road Project for US$1 million was approved in 2015.

The year-end performance of ADB's portfolio was satisfactory in 2014 with 78 percent projects on track. Contract awards and disbursements as of 31 December 2014 reached US$65.94 million and US$63.4million (86 percent and 102 percent of year's projections), respectively.

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

At the Thirteenth CAREC Ministerial Conference held in Bishkek in November 2014, a memorandum of understanding was signed between the cities of Almaty and Bishkek to jointly work on development of the Almaty—Bishkek Corridor.

By the end of 2014, cumulative direct value-added official co-financing for the Kyrgyz Republic since 1997 amounted to US$216.2 million for eight investment projects and US$3.1 million for eight technical assistance projects.

ADB private sector operations in the Kyrgyz Republic began in 2012 with the signing of a US$10 million SME loan to the Kyrgyz Investment and Credit Bank. ADB's Trade Finance Program (TFP) fills market gaps in trade finance by providing guarantees and loans through over 200 partner banks in support of trade. In December 2012, three banks in the Kyrgyz Republic signed TFP agreements including Demir Kyrgyz International Bank, Kyrgyz Investment and Credit CJSC, RSK

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

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

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

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

(As of September 30, 2015)

Overview of EBRD activities to date

The Bank has been actively supporting the transition in Kyrgyz Republic since 1995. From 1995 to the end of September 2015, the Bank signed 128 projects accounting for a net cumulative business volume of €516 million. The Bank's portfolio amounted to €209 million in 54 active projects. The current private sector portfolio ratio (as a percentage of the total portfolio) is 68 percent which is well above the Bank's 60 percent mandated ratio.

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

Fostering sustainable growth by strengthening regional cross-border linkages:

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

- In that context, the Bank aims to help facilitate economic and trade cooperation and integration with the region, by supporting rehabilitation of critical infrastructure. In 2014 and 2015 the Bank completed physical implementation of US$35 million project to rehabilitate a section of Osh-Isfana road, an important trade and transport corridor in the Fergana valley and has been exploring opportunities for further involvement in the road sector.

- The Bank helped local SMEs to develop export potential by providing direct business advice involving both local and international consultants, organizing specialized seminars, trainings to promote trade finance instruments and equip consultant with much needed knowledge on export promotion.

- The Bank continued its engagement with the government on public procurement improvement under the joint EBRD–UNCITRAL technical cooperation project designed to upgrade public procurement regulation in the CIS to the new UNCITRAL Model Law on Procurement of Goods, Construction, and Services. The Bank continues working with the government on helping to open negotiations and join the GPA to comply with requirements of both WTO and Eurasian Economic Union in terms of public procurement.

Enabling SMEs to scale-up and bolster competitiveness:

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

- Under the Direct Finance Facility, in 2014 the Bank financed a local retail chain to support expansion and improve shop conditions; and a local property and hotel developer to complete the major construction and refurbishment works.

- Under the Risk-sharing Facility (RFF), jointly with local partner banks the Bank supported expansion to Jalalabad of one of the leading flour producing companies; financed two local construction companies, one to invest into expansion of its stone crushing and mortar product lines to increase efficiency and ensure acceptable product quality, and another to increase own fleet to maintain a continuous raw materials supply; financed one of the largest manufacturing enterprises in the country supplying radiators and other spare parts to its partners in Russia and Kazakhstan helping to improve health and safety standards at the site as well as modernize production facilities; supported a local resort to help modernize its wastewater treatment facility with the aim to reduce energy consumption and improve the resort's area and facilities; provided financing to a local fuel trader to expand the network of fuel stations across the country; and supported a local producer of confectionery in the southern area to refurbish its manufacturing workshop.

- Improving access to finance by developing local financial sector remained a priority for the Bank in supporting SMEs. In 2014–15 the Bank signed ten new loan agreements with local banks and MFIs, including eight loan agreements in local currency as part of the Bank's Local Currency and Local Capital Market Initiative, a risk-sharing program supported by donor grants to catalyze local currency lending in the early transition countries (ETC). In September 2015 EBRD has approved US$33 million financing package to OptimaBank, the largest bank in the country. This includes credit line for support of MSMEs, limits opened under Trade Facilitation Program and Risk–sharing Facility.

- Loans to local financial institutions also included the energy efficiency credit lines to four participating financial institutions provided under the US$20 million Kyrgyz Sustainable Energy Efficiency Facility (KyrSEFF) which is an example of an integrated approach combining policy dialogue, financing and TC-supported capacity building at local intermediaries, benefiting from donor-funded investment incentives. KyrSEFF offers to provide financing for small-size energy efficiency improvements in the residential, service, agribusiness, SME, and industry sectors.

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

- The Bank also engaged in policy dialogue with the National Bank of the Kyrgyz Republic (NBKR) on supporting development of mobile banking regulation, and strengthening the NBKR capacity in monetary policy implementation (inflation targeting TC Program). Jointly with KfW, the Bank initiated a technical assistance project to support further development of the local capital market.

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

    - SBS works with international advisers with more than 15 years' experience in a particular industry or field. In visits over the course of 12–18 months, the advisers strive to transfer their know-how to receptive managers. The teaching of international best practices is tailored to the needs of the client, and can cover anything from restructuring, to marketing and design or financial management. SBS has undertaken 55 projects in the Kyrgyz Republic with companies in manufacturing, ICT, tourism, and agriculture. The majority of projects focused on improving marketing and sales, organization, operations, and financial management. The total donor commitment for these projects was approximately €3.2 million.

    - SBS helps companies work with qualified local consultants on a range of projects, covering concerns from market research to strategic planning, quality management and certification or energy efficiency and environmental management. These projects are undertaken on a cost-sharing basis. SBS also work with the local consultancy sector, supporting professional capacity building to develop the skills of local consultants to enable them to serve the SME sector on a sustainable basis, and to introduce more sophisticated advisory services in areas such as quality management and energy efficiency. As of 23 September 2015, SBS Kyrgyz Republic has undertaken 893 projects, engaging 202 consultants. More than 65 percent of the enterprises assisted are located outside the main cities. Despite the difficult business climate, turnover increased in nearly 66 percent of SBS beneficiary companies in the year following project completion, while 57 beneficiaries secured external investments, for a total investment of €31 million. SBS Kyrgyz Republic is funded by the Swiss and the U.S. Governments and the EBRD Shareholders Special Fund which have contributed €4.5 million, €0.7 and €1 million respectively.

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

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

- Under this framework, the Bank signed new water and wastewater projects for Tokmok, Naryn and Batken in 2015. The new loans in total amount of €5.5 million (€2.0 million for Tokmok, €2.0 million for Naryn and €1.5 million for Batken) are co-financed by capital grants in total amount of €8.8 million (€3.1 million for Tokmok, €3.2 million for Naryn and €2.5 million for Batken) from the European Union's Investment Facility for Central Asia (EU IFCA), Swiss State Secretariat for Economic Affairs (SECO) and the EBRD Shareholder Special Fund (SSF) respectively for Tokmok, Naryn and Batken and will be used to finance critical water and wastewater infrastructure improvements in these cities. The capital expenditure grants are required to meet conditions for non-concessional lending and mitigate affordability constraints. Projects in the water sector enabled the Bank to make progress with water tariff reforms, implementing IFRS accounting standards, and promoting efficiency in the water companies.

- In 2015 the EBRD declared effective the €11 million loan to finance critical solid waste investments in Bishkek, which is the first project supporting solid waste management in the country. The loan is co-financed by €3 million capital grant from the Bank's Shareholder Special Fund (SSF) and €8 million from the EU IFCA. The project is expected to improve the city's solid waste management, including collection across the city, investment in an urgently needed sanitary landfill, and the closure of the existing dumpsite, which is at the end of its economic life. The project will help optimize solid waste collection including via acquisition of new trucks and containers and is expected to result in an improved level of public service, the introduction of waste recycling and environmental improvements. In addition substantial TC has been mobilized to assist the Bishkek municipality with development and implementation of resettlement and livelihood restoration in connection with the existing landfill. By end of 2015 the Bank intends to provide new loans of €3.5 million in total to finance critical solid waste investments in Osh and Jalal-Abad cities. The Bank loans will be co-financed by €7 million loans from the European Investment Bank and €9 million capital grants from EU IFCA.

- The Bank continued implementation of the Bishkek Public Transport project with 79 new high- and low-floor trolleybuses delivered to Bishkek by the end of 2014 and in the same year provided a new loan of €5.7 million for improvement of public transport system in the City of Osh. The loan was co-financed by €3.1 million capital grant from EBRD Shareholder Special Fund. For all municipal projects gender was taken into consideration with respect to improving equality of access to the new services. By the end of 2015 the Bank intends to provide additional loan of €5 million in total to finance the second phase of the Bishkek Public Transport project for procurement of additional up to 60 new trolleybuses. The Bank loan will be co-financed by €3.4 million capital grant from EBRD SSF.

Policy dialogue:

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

- The Bank continued to actively engage in policy dialogue with the government and local authorities to promote the further reform agenda in corporate and infrastructure sectors, in particular transport sector (road maintenance and financing) reform.

- The Bank is providing support to the development of local capital markets through policy dialogue, TC deepening the market, and reducing financial institutions' funding mismatches, including in local currency.

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

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

- The Bank continued policy dialogue with the authorities and utility companies to improve employment opportunities and HR practices affecting women, youth and regional populations in utility and public transport. An initial study of impediments for creating equal opportunities for women's employment in the mining sector has been produced which suggested a need for changes to be further discussed with the authorities.

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TECHNICAL ASSISTANCE PROVIDED BY THE FUND

(February 2003–November 2015)

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

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

Dept.	Subject/Identified Need	Timing	Counterpart
	Tax Administration Enforcement (Module 6—TPA TTF)	November 19–23, 2013	Ministry of Finance, State Tax Service, State Customs Service
	Tax Administration Enforcement (Module 6—TPA TTF)	January 8–22, 2014	Ministry of Finance, State Tax Service, State Customs Service
	Public Finance Management	May 2–13, 2014	Ministry of Finance
	Public Finance Management	December 5–18, 2014	Ministry of Finance
	Public Finance Management	April 23 to May 7, 2015	Ministry of Finance
	Tax Policy	April 29 to May 13, 2015	Ministry of Economy
	Public Finance Management	September 17 to October 1, 2015	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

Dept.	Subject/Identified Need	Timing	Counterpart
	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

Dept.	Subject/Identified Need	Timing	Counterpart
	Assessment of the Government Primary and Secondary Market Arrangements in the Kyrgyz Republic	May 6–16, 2008	National Bank of the Kyrgyz Republic
	Public Debt Management	July 14–31, 2009	Ministry of Finance and others
	Risk Management within the Islamic Banking Framework	July 6–15, 2009	National Bank of the Kyrgyz Republic
	Financial Stability Analysis and Stress Testing	March 10–18, 2010	National Bank of the Kyrgyz Republic
	Improving the Bank Resolution Framework	March 31–April 9, 2010	National Bank of the Kyrgyz Republic
	Bank Resolution	May 31–June 3, 2010	National Bank of the Kyrgyz Republic
	Bank Resolution	July 26–August 1, 2010	National Bank of the Kyrgyz Republic
	Bank Resolution	August 10–19, 2010	National Bank of the Kyrgyz Republic
	Reserve Management	January 28–Febraury 9, 2013	National Bank of the Kyrgyz Republic
	Operational Advice on Improving the Monetary Policy Framework	March 22–29, 2012	National Bank of the Kyrgyz Republic
	FSAP Scoping Mission	April 1–5, 2013	National Bank of the Kyrgyz Republic
	FSAP update	July 1–15, 2013	National Bank of the Kyrgyz Republic

Dept.	Subject/Identified Need	Timing	Counterpart
	Operational Advice on Improving the Monetary Policy Framework	February 3–14, 2014	National Bank of the Kyrgyz Republic
LEG	Review of Bank Legislation	March 1–4, 2004 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	National Bank of the Kyrgyz Republic and State Financial Intelligence Service

Dept.	Subject/Identified Need	Timing	Counterpart
	AML/CFT Follow-up	August 3–14, 2009	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	AML/CFT follow-up	September 22–25, 2009	State Financial Intelligence Service
	AML/CFT Follow-up	October 5–16, 2009	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	AML/CFT Follow-up	January 27–29, 2010	State Financial Intelligence Service
	AML/CFT Follow-up	February 22–March 4, 2010	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	AML/CFT Follow-up	January 18–20, 2011	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	Legal Framework for Crisis Management and Bank Resolution	March 9–23, 2011	National Bank of the Kyrgyz Republic, Ministry of Finance, Deposit Protection Agency, Debt Enterprise Bank Resolution Agency, Ministry of Foreign Affairs, and Union of Banks

Dept.	Subject/Identified Need	Timing	Counterpart
	Legal Frameworks for Bank Resolution	September 6–16, 2011	National Bank of the Kyrgyz Republic and Debt Enterprise Bank Resolution Agency
	AML/CFT Follow-up	October 17–21, 2011	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	Legal Frameworks for Bank Resolution and Central Banking	March 5–15, 2012	National Bank of the Kyrgyz Republic
	Legal Frameworks for Bank Resolution and Central Banking	December 11–20, 2012	National Bank of the Kyrgyz Republic
	AML/CFT Follow-up	February 2013	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	February 2014	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	January 2015	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor

Dept.	Subject/Identified Need	Timing	Counterpart
	AML/CFT Follow-up	June 2015	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	October–Novemberd 2015	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
STA	SDDS Subscription	January 28–February 5, 2004	National Statistical Committee
	Balance of Payments Statistics	March 15–29, 2004	National Bank of the Kyrgyz Republic
	Monetary and Financial Statistics	April 27–May 11, 2004	National Bank of the Kyrgyz Republic
	National Accounts Statistics	November 17–28, 2008	National Statistics Committee
	Government Finance Statistics	November 11–14, 2008	Ministry of Finance
	National Accounts Statistics	March 1–12, 2010	National Statistics Committee
	Government Finance Statistics	February 13–24, 2012	Ministry of Finance
	Private Sector External Debt Statistics	February 4–15, 2–12	National Statistics Committee and National Bank of the Kyrgyz Republic

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

List of Resident Advisors

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

STATISTICAL ISSUES

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

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

3. A data ROSC mission in November 2002 concluded that the quality of the macroeconomic statistics had improved significantly in the last few years. The authorities' response to the data ROSC (posted on the IMF website www.imf.org/external/np/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 MFS Technical Assistance (TA) mission visited the Kyrgyz Republic in April 2015 and assisted the National Bank of Kyrgyz Republic (NBKR) in migrating to the IMF recommended Standardized Report Forms (SRFs). The pilot data SRF 1SR for the NBKR and SRF 2SR for other depository corporations (which currently include operational commercial banks only) were developed and submitted to STA for review. STA identified classification and sectorization issues in the reported SRF data, which were communicated to the authorities. The data will be published in International Financial Statistics as soon as these issues are resolved. Another MFS TA mission is planned for FY2016 which will focus on extending a coverage of SRF 2SR by including other deposit taking institutions as well as developing SRF 4SR for other financial corporations.

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

External sector statistics

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

Kyrgyz Republic: Table of Common Indicators Required for Surveillance

(As of October 30, 2015)

	Date of latest observation	Date received	Frequency of data[7]	Frequency of reporting[7]	Frequency of publication[7]	Memo Items: Data Quality Methodological Soundness[8]	Memo Items: Data Quality Accuracy and Reliability[9]
Exchange Rates	10/30/15	10/29/15	D	D	W		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	9/31/15	10/15/15	M	M	M		
Reserve/Base Money	10/30/15	10/29/15	D	D	M	LO, O, LO, LO	LO, O, O, LO, LO
Broad Money	9/31/15	10/15/15	M	M	M		
Central Bank Balance Sheet	10/30/15	10/29/15	D	D	M		
Consolidated Balance Sheet of the Banking System	9/31/15	10/15/15	M	M	M		
Interest Rates[2]	9/31/15	10/15/15	M	M	M		
Consumer Price Index	09/30/15	10/12/15	M	M	M	O, LO, O, O	LO, LO, O, O, O
Revenue, Expenditure, Balance, and Composition of Financing[3]—General Government[4]	9/30/15	10/28/15	M	M	A	O, LNO, LO, O	LO, O, O, LO, LO
Revenue, Expenditure, Balance, and Composition of Financing[3]—Central Government	9/30/15	10/28/15	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/31/14	1/28/15	Q	Q	Q		
External Current Account Balance	8/31/15	9/4/15	Q	Q	Q	LO, LO, LO, LO	O, LO, LO, LO, LO
Exports and Imports of Goods and Services	8/31/15	9/4/15	Q	Q	Q		
GDP/GNP	9/30/15	10/13/15	M	M	M	O, O, LO, O	LO, LO, LO, O, O
Gross External Debt	12/31/14	1/28/15	Q	Q	A		
International Investment Position[6]	6/30/15	7/1/15	Q	Q	Q		

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

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

[3] Foreign and domestic financing only.

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

[5] Including currency and maturity composition.

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

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

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

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

Statement by Daniel Heller, Executive Director for Kyrgyz Republic and Mr. Imashov, and Mr. Waelti, Advisors to Executive Director
December 4, 2015

On behalf of our Kyrgyz authorities, we would like to thank management and staff for their continued support to the Kyrgyz Republic through the three-year arrangement under the Extended Credit Facility (ECF). The authorities are highly appreciative of the Fund's steady engagement with them and broadly agree with staff's assessment and policy recommendations. In a turbulent regional economic context, the Fund program provides a solid framework for the design, prioritization, and implementation of sound policies to support the economy in the short term, as well as to lift its potential and enhance its resilience in the long term. Ultimately, preserving macroeconomic stability and putting economic growth on a higher trajectory are essential to sustain social stability and to achieve permanent gains in the fight against poverty. Against this background, the authorities remain strongly committed to the set of measures agreed under the Fund program. Program implementation has been strong. All end-June 2015 quantitative performance criteria and all indicative targets were met. For the most part, structural benchmarks for this review were met. On this basis, the authorities request the completion of the first review and the related disbursement in the amount of SDR 9.514 million.

Recent economic developments

The turbulent regional economic context is taking a toll on the Kyrgyz economy. The economic slowdown in major trading partners has contributed to lowering exports and has also slashed remittances, an important source of foreign exchange and driver of domestic demand. Remittances are equivalent to almost one third of GDP. In the first nine months of this year, remittances decreased by 28 percent (y-o-y) in USD terms. The knock-on effect on the som from the depreciations of other regional currencies and the appreciation of the US dollar elevates the risks to the financial sector and has contributed to the higher-than expected level of public external debt. Overall, this wave of external shocks sharpens some of the policy trade-offs faced by the authorities and complicates macroeconomic policy management.

In this difficult external environment, economic growth will remain modest in 2015 due to a decrease in gold production and despite relatively good results in the rest of the economy. Year-on-year inflation slowed down from 10.5 percent in December 2014 to 6.4 percent in September 2015 due mainly to lower food prices. The favorable state of world food markets, the good harvest in the Kyrgyz Republic along with tight monetary policy resulted in an inflation rate of 1.1 percent on a cumulative basis for the first nine months of 2015. The benefits from lower fuel import prices were partially offset by the depreciation of the som against the US dollar. The National Bank of the Kyrgyz Republic (NBKR) has maintained a tight monetary policy and allowed the exchange rate to adjust to external shocks, limiting its interventions to smoothing excessive fluctuations.

The authorities will ensure that the end-of-year fiscal deficit is in line with the program target. Their second supplementary budget targets an overall deficit of 3.7 percent of GDP. However, it is expected that through frugal budget execution, the deficit will be brought down to 3.5 percent of GDP.

The Kyrgyz Republic officially became a member of the Eurasian Economic Union (EEU) on August 12, 2015. The Russia-Kyrgyz Development Fund has started its operations. So far, the Russian Federation has disbursed USD 300 million to overcome the structural changes caused by the new trade regime, to enhance the access to credit for the private sector, and to support the Kyrgyz economy.

Fiscal policy: a balancing act geared towards fiscal consolidation and maintaining debt sustainability

The authorities remain committed to resume fiscal consolidation in 2016 to maintain public debt at a sustainable level, as planned at the time of the program request. For the remainder of this year, program commitments will be met by streamlining expenditures as needed and by avoiding new recurring spending unless these are financed by new permanent revenue measures.

The budget for 2016 is being prepared in line with program targets, through a combination of revenue measures and further expenditure streamlining, including a reduction of the wage bill and refraining from ad hoc wage increases. While the overall balance will deteriorate due to the postponement of some PIP projects from 2015 to 2016, an operating surplus of 5.9 percent of GDP is targeted. To meet this target, a fiscal effort of at least 1.6 percentage points of GDP will be undertaken, excluding expected EEU customs revenues which should be saved to gradually rebuild thin fiscal buffers.

Education is a powerful driver of development and one of the most effective instruments for reducing poverty and improving health, gender equality, peace, and social stability. To this end,

the authorities have decided to dedicate the USD 100 million windfall revenue from the sale of a gold mine to the improvement of existing schools and the construction of new schools in remote areas, as a national commitment to the Sustainable Development Goals.
Given the fact that the salary of teachers was around USD 80 per month, the Kyrgyz authorities also decided to increase it to USD 120 on average.

To ensure that the increase of teachers' salaries stays budget neutral, a number of revenue measures will be implemented such as upgrading the mechanisms of accruing and paying certain types of non tax payments, strengthening the administration of the VAT to reduce tax evasion and broaden the tax base, and raising excise taxes as part of the process of harmonization with EEU rules.

The authorities remain fully committed to maintaining public external debt at a sustainable level over the medium term. In the period ahead, to that effect, an action plan will be introduced to improve the quality and the efficiency of the public investment process.
Furthermore, among other measures, the authorities will revise their Medium Term Debt Strategy in line with the outcome of the new debt sustainability analysis. The authorities intend to refrain from nonconcessional borrowing and request an indicative target of zero nonconcessional borrowing to that effect, in addition to the quantitative performance criterion on the present value of new external debt contracted or guaranteed.

Monetary and financial sector policies

Monetary policy will continue to focus on containing inflation within the target range. As in the past, the NBKR will maintain a positive policy rate in real terms and stands ready to adjust its level in response to inflationary and exchange rate pressures. Foreign exchange interventions will continue to be used only to smooth excessive fluctuations. Their tightening impact will be carefully monitored to avoid unduly restricting credit growth and damaging growth prospects.

The authorities will further pursue their efforts to preserve financial sector stability and reduce dollarization through market-based measures. They are analyzing the impact of the macroprudential measures introduced in May 2015 with a view to fine-tuning them as needed. To address the challenges arising from exchange rate volatility, higher reserve requirements were set on foreign exchange deposits. In addition, the authorities stand ready to consider and introduce regulation to restrict foreign exchange lending to borrowers with less than 50 percent of their income in foreign currency.

The authorities remain committed to make every effort to work with the newly elected Parliament to enact the Banking Law in a form substantially similar to the draft that was initially submitted to Parliament. Once the Banking Law is implemented, it will contribute substantially to the strengthening of the Kyrgyz financial system.

Meanwhile, banking sector supervision is being further strengthened by developing a strategic plan to build supervisory capacity and to provide for a robust supervisory program, including risk based supervision. A crisis simulation exercise will be conducted by March 2016 and a crisis preparedness framework will be developed together with the Ministry of Finance and the Deposit Protection Agency by September 2016. The model for macrofinancial stress testing will be enhanced, and banks will be closely monitored, particularly those with a large exposure to trade, construction, mortgage and consumer loans.

While the audit of DEBRA could not be completed as expected, the authorities remain fully committed to completing this audit. Progress has been made and an auditor has been appointed (prior action). This auditor has been tasked to complete its work by March 2016.

Structural and institutional reforms to strengthen long-term growth

The Kyrgyz authorities are well aware of the importance of further improving the business environment, a key pillar of sustainable and inclusive growth. This issue was stressed by the President of the Kyrgyz Republic, Mr. Atambaev, during the opening ceremony of the first session of the newly elected parliament.

Improving the business and investment climate is crucial to strengthen long-term growth in general, and to reap the full benefits from EEU membership in particular. A review of the tax regime will be undertaken to ensure simplicity, fairness and equal treatment of all tax payers. The new government has committed to put all its efforts to find a mutually beneficial resolution of the dispute with Centerra, based on high environmental and social standards, to prevent any disruption in gold production. The Kyrgyz authorities are deeply aware of the fact that a stable and predictable investment climate with proper contract enforcement, as well as less red tape and corruption, are essential for attracting investment and spurring private sector-led growth.

The authorities will continue their efforts to reform the energy sector with the aim of improving service delivery and putting it on sound economic footing. As such, these reforms will reduce the sector's fiscal burden and, maybe even more importantly, help improving the business environment by facilitating access.

The authorities remain devoted to implementing the EEU commitments for promoting trade with regional countries. They will continue to pursue greater regional economic and social integration, and to advocate further steps to open up the country with a view to enhancing competition and efficiency.

Conclusion

The Kyrgyz authorities are fully aware that the key near-term challenge is to maintain macroeconomic stability and to put the financial sector on a sound footing. The authorities also agree that key medium-term priorities include diversifying the economy away from gold, reducing dependence on remittances and external support, and creating a business environment conducive to private sector-led growth. This position will be reflected in the overarching National Sustainable Development Strategy for the next decade.