June 2013
IMF Country Report No. 13/175

# Kyrgyz Republic: 2013 Article IV Consultation and Fourth Review Under the Three-Year Arrangement Under the Extended Credit Facility, Request for Waiver of Nonobservance of a Performance Criterion, and Request for Modification of Performance Criteria—Staff Report; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Kyrgyz Republic

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2013 Article IV consultation with Kyrgyz Republic and the fourth review under the Extended Credit Facility, the following documents have been released and are included in this package:

- The staff report for the combined 2013 Article IV consultation and fourth review under the Extended Credit Facility, prepared by a staff team of the IMF, following discussions that ended on April 10, 2013, with the officials of Kyrgyz Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 21, 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its June 10, 2013, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

- A statement by the Executive Director for Kyrgyz Republic.

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

Selected Issues Paper
Letter of Intent sent to the IMF by the authorities of Kyrgyz Republic*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

Copies of this report are available to the public from

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

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

INTERNATIONAL MONETARY FUND

# KYRGYZ REPUBLIC

May 21, 2013

## STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

## KEY ISSUES

**Political and economic context.** The Kyrgyz Republic became a parliamentary democracy in 2010 following political turmoil and ethnic unrest. The shift in the political system provided an impetus for comprehensive economic reforms. While the authorities have implemented critical fiscal reforms, financial sector reforms turned out more challenging than expected. The current coalition government has managed to maintain a relatively stable political environment, but the political situation remains fragile. Notwithstanding the deterioration of macroeconomic conditions in 2012, policies have remained generally prudent.

**Article IV discussions** focused on policies needed to secure sustainable and inclusive private sector-led growth over the medium term. The authorities agreed that reducing the reliance on external aid and ensuring medium-term fiscal sustainability, supported by fiscal consolidation, is essential for macroeconomic stability. In the near term, fiscal consolidation will help ensure that debt remains on a declining path and support the central bank's efforts to curb inflation. The authorities acknowledged that a well-functioning financial sector is needed to generate savings and support private sector-led growth. They also recognized that improving the businesses environment, governance, and institutions remains pivotal in strengthening the role of the private sector and supporting sustainable and inclusive growth. In this context the government's commitment to resolve the dispute with the gold mining company constructively is expected to limit potential damages to the investment climate. Traction of previous IMF advice has been broadly satisfactory.

**The program** is broadly on track with all end-December quantitative performance criteria (QPC) met. However, one structural benchmark and two indicative targets were not observed at end-December. The structural benchmark on Zalkar's sale was met with a delay in early May. The continuous QPC on contracting or guaranteeing of new nonconcessional external debt by the public sector was also missed. The authorities are requesting a waiver of nonobservance of this QPC, based on corrective actions being taken. The authorities are also requesting the fifth disbursement (SDR 9.514 million) to become available upon completion of this review.

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

The team comprised C. Beddies (head), D. Ostojic and B. Shukurov (all MCD), Q. Chen (SPR), and K. Gvenetadze (Resident Representative). Discussions were held in Bishkek during March 27–April 10, 2013. The mission met with President Atambaev, Speaker of Parliament Jeenbekov, Prime Minister Satybaldyev, First Vice Prime Minister Otorbaev, Minister of Finance Lavrova, Chairperson of the National Bank of the Kyrgyz Republic Asankojoeva, Minister of Economy Sariev, other senior government officials, and representatives of the donor community, the private sector, and civil society.

## CONTENTS

**TEXT TABLES**



**FIGURE**



**TABLES**



**APPENDICES**

# RECENT DEVELOPMENTS AND OUTLOOK

## A. Context

**1. The shift to a parliamentary democracy in 2010 provided an impetus for the Kyrgyz Republic to reform the economy.** The Kyrgyz economy is the most open one in the region, and depends heavily on gold exports and remittances. The political turmoil and internal ethnic conflict in 2010 disrupted economic activity. To address the effects of the domestic crisis, the new government increased social outlays, wages, and pensions, leading to fiscal tensions. Nonetheless, the public debt-to-GDP ratio declined, helped by recent debt write-offs.[1] The authorities introduced tax policy and tax administration measures to strengthen revenue collection and improved public financial management to increase the efficiency of spending. However, the new political system and frequent changes in government have made some aspects of economic reform more difficult and led to delays, particularly in the financial sector (Box 1).

**Box 1. Kyrgyz Republic: How Much Traction did Previous IMF Advice Receive?**

| Staff Advice | Policy Actions |
|---|---|
| | *Fiscal policy* |
| Consolidate the fiscal position | The authorities reduced the fiscal deficit to 5.4 percent of GDP in 2012 from 6.4 percent in 2010 and are committed to reduce the deficit further, to less than 3 percent of GDP by 2015, to maintain a sustainable debt position. |
| Raise revenues through tax policy and tax administration measures | The authorities removed the turnover tax exemption on electricity, heat and natural gas for commercial users; moved to a contract-based tax regime for food services; they strengthened tax administration and moved the tax policy function back to the ministry of finance in March 2013. |
| Enhance customs administration | The authorities improved the customs valuation system and moved the majority of imported goods from weight-based to price-based valuation. |
| Reduce fiscal risks stemming from state-owned enterprises and boost revenues from dividends | The government adopted a resolution on the procedures for the submission of budgets of the 20 largest SOEs. |
| Strengthen public financial management | The authorities strengthened PFM by a number of reforms. They also established the high-level committee to coordinate PFM reforms chaired by the Minister of Finance. Treasury reforms are in progress. |
| Enhance social safety nets and targeted social assistance programs | The authorities expanded targeted cash transfers to the poor. |
| | *Monetary and financial sector policies* |
| Resolve Zalkar | The authorities found resolving the bank difficult in a challenging political environment. This measure took some time to implement. Zalkar was sold to a fit and proper buyer in May 2013. |
| Strengthen central bank independence and financial sector oversight | The authorities phased out the special bank refinancing fund (SBRF) and liquidated it in October 2011. They developed a privatization strategy for SSC Bank. The draft Banking Code was submitted to the government for consideration at end-April 2013. |

[1] See IMF Country Report No. 12/329.

2. **Despite the recent progress, the Kyrgyz Republic faces significant economic challenges.** The key near-term challenge is to maintain macroeconomic stability and to put the financial sector on a sound footing. The authorities agreed that key medium-term challenges 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.

3. **Meeting the challenges will require actions on many fronts.** Fiscal consolidation is critical to ensure sustainability of public finances, keep debt on a declining path, and support the central bank's efforts to curb inflation. In this context, it is essential to maintain and strengthen central bank independence, which recently has come under pressure. Moving ahead with reforms in the banking sector and improving the business environment will be key to strengthening the role of the private sector. Enhancing the provision of high-quality public services and addressing corruption are essential elements of a successful development agenda. The government will also need to address the remaining ethnic tensions and actively participate in the regional dialogue on the development of the hydro-power sector.

## B. Recent Developments

4. **The political situation has stabilized but remains fragile.** The three-party coalition government formed after the breakup of the previous coalition in August 2012 has managed to maintain a relatively stable political environment. Nevertheless, the political situation remains fragile as some members of parliament continue to voice their disagreement with the government's reform agenda.

5. **The economic situation deteriorated in 2012 (Figure 1).** Gold production dropped by 40 percent owing to disruptions at Kumtor, the largest gold mine. Solid growth in other sectors, fueled by remittances inflows, cushioned the drop in overall output to -0.9 percent. The current account deficit increased substantially, mainly due to the decline in gold exports and an increase in imports of inputs for ongoing energy infrastructure projects. Official assistance and remittances, which have the strongest impact on the exchange rate, mitigated depreciation pressures. The capital and financial accounts have been volatile, primarily because of upward revisions to private external debt, sizable debt relief, and short-term flows related to mining activity. Inflation increased to 7.5 percent by end-2012, owing to rising international food prices in the summer.

6. **Notwithstanding adverse economic conditions, fiscal policy remained prudent.** The 2012 fiscal deficit was 5.4 percent of GDP and below the targeted 6 percent of GDP, although somewhat higher than in 2011 owing to the expenditure carryover. The revenue-smoothing arrangement with Kumtor and buoyant customs revenue in the first nine months of 2012 offset the shortfall in gold-related revenue. However, growth in customs revenue decelerated in late 2012. The government curtailed some nonpriority expenditure to accommodate lower-than-budgeted external financing on account of delays in the implementation of structural measures agreed with donors. Unexpected external grants in late 2012 led to a better-than-projected fiscal outturn.

**7. Despite lowering the policy rate, the central bank continued to mop up excess liquidity, although not consistently throughout 2012.** The National Bank of the Kyrgyz Republic (NBKR) reduced the policy rate in several steps to 2.6 percent, in response to negative economic growth and moderate inflation. The shift in monetary policy has not affected the average lending rate in the banking system. Toward end-2012, however, sterilization efforts were not sufficient to offset strong growth in foreign inflows. As a result, reserve money increased by more than expected. Growth in private credit was strong on account of buoyant demand across most sectors and a one-off factor (a micro-finance institution became a bank in November 2012).

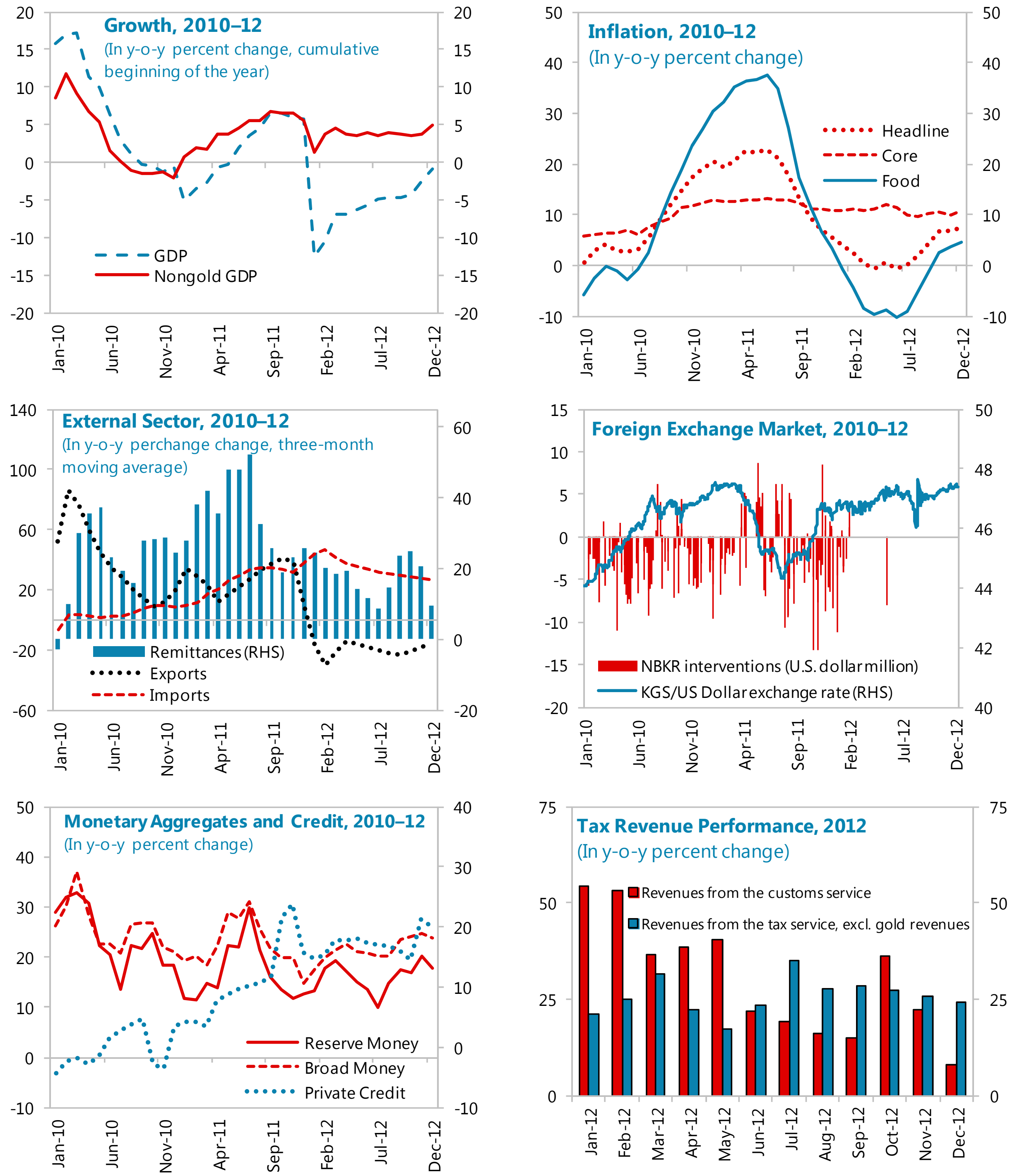
**8. The banking sector has remained generally stable (Text Table 1).** Nonperforming loans continued to fall during 2012, while provisioning increased. Capital adequacy and liquidity of the banking system remained sufficient, while profitability increased. However, dollarization, even though on a declining trend, is still high.

Text Table 1. Kyrgyz Republic: Selected Financial Soundness Indicators, 2009–12

| | Mar-10 | Jun-10 | Sep-10 | Dec-10 | Mar-11 | Jun-11 | Sep-11 | Dec-11 | Mar-12 | Jun-12 | Sep-12 | Dec-12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Capital Adequacy 1/ | | | | | | | | | | | | |
| Regulatory capital to risk weighted assets | 31.7 | 25.4 | 23.1 | 31.0 | 30.4 | 28.2 | 29.7 | 30.3 | 29.7 | 27.3 | 27.9 | 28.3 |
| Capital to total assets | 19.6 | 18.0 | 16.0 | 20.0 | 20.1 | 18.7 | 19.8 | 20.1 | 19.4 | 17.9 | 17.9 | 18.3 |
| Liquidity | | | | | | | | | | | | |
| Liquidity ratio | 86.7 | 75.6 | 64.8 | 72.8 | 76.5 | 73.1 | 72.8 | 74.9 | 83.5 | 80.3 | 78.6 | 80.0 |
| Excess reserves/total reserves | 15.8 | 43.4 | 39.3 | 57.3 | 34.3 | 34.7 | 33.5 | 27.0 | 40.0 | 32.5 | 33.6 | 34.6 |
| Asset quality 1,2/ | | | | | | | | | | | | |
| Nonperforming loans/total loans | 7.9 | 13.7 | 16.8 | 15.8 | 13.8 | 12.3 | 11.4 | 10.2 | 9.9 | 9.0 | 8.5 | 7.2 |
| Loan-loss provisioning/nonperforming loans | 57.5 | 52.8 | 62.7 | 67.7 | 59.6 | 59.8 | 59.2 | 61.6 | 60.3 | 62.3 | 61.6 | 64.9 |
| Earnings and profitability 1,2/ | | | | | | | | | | | | |
| Return on equity | 12.5 | -58.0 | -51.3 | 7.1 | 13.3 | 14.4 | 14.6 | 17.7 | 15.0 | 16.9 | 19.5 | 18.5 |
| Return on assets | 2.4 | -11.2 | -9.3 | 1.2 | 2.5 | 2.7 | 2.7 | 3.0 | 2.7 | 2.7 | 3.3 | 3.0 |

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

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




Sources: Kyrgyz authorities and IMF staff estimates.

## C. Program Implementation

**9. The program has been broadly on track, albeit with some slippages.** All end-December 2012 QPC and all but one structural benchmarks were met (Tables 13 and 14). The structural benchmark on the sale of Zalkar was met with a delay in early May. The end-December 2012 indicative targets on state government tax collections and reserve money were also missed. The continuous QPC on the ceiling on contracting or guaranteeing of new nonconcessional external debt was missed in early 2013.[2] The law on anti-money laundering and countering the financing of terrorism (AML/CFT) and the relevant provisions of the Criminal Code were submitted to parliament in December 2012. The revised SSC sales strategy was approved by the government in February 2013. A government resolution on the procedures for submission of budgets of the next 10 largest state-owned enterprises (SOEs) to the government was adopted at end-March 2013 (LOI ¶7). The authorities are requesting a waiver of nonobservance of the continuous QPC based on corrective actions being taken. The authorities are making progress toward meeting the structural benchmarks scheduled for the coming months.

## D. Outlook and Risks

### Outlook

**10. With prudent macroeconomic policies and continued structural reforms, the medium-term outlook is broadly favorable (Text Table 2).** Nongold growth this year is expected to be lower than in 2012 because of the negative impact on the investment climate from the ongoing government dispute with Kumtor. With the expected recovery in the gold sector, overall growth is, however, expected to be strong (Box 2). Going forward, staff projects that growth will stabilize at 5 percent, supported by continued remittances inflows, strong private credit growth, and structural reforms leading to a better business environment. In the absence of renewed supply shocks, inflation is expected to remain in single digits. The current account deficit in 2013 is expected to decline, primarily owing to the recovery in gold production. The authorities' development strategy envisages somewhat more optimistic economic growth over the medium term—7 percent—based on accelerated reforms, in combination with strengthened security, political stability, and increasing energy independence. External public debt remains unchanged at a moderate risk of debt distress (Country Report No. 12/139).

[2] The Electric Power Station, which is part of the public sector, signed a credit line with the Eurasian Development Bank for a total amount of US$30 million (0.5 percent of GDP). The loan does not have a material impact on the debt outlook.

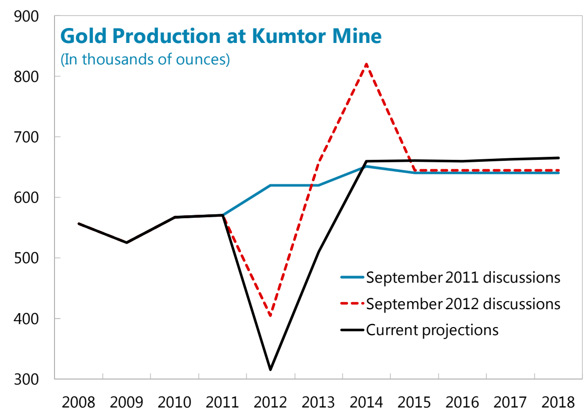
Text Table 2. Kyrgyz Republic: Medium-Term Outlook, 2008–18

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Projections | | | | | |
| | Percentage change | | | | | | | | | | |
| Real GDP | 7.6 | 2.9 | -0.5 | 6.0 | -0.9 | 7.4 | 7.5 | 5.3 | 5.0 | 5.0 | 5.0 |
| Nongold real GDP | 5.4 | 3.4 | -2.1 | 5.6 | 5.0 | 4.5 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Inflation (eop, y-o-y) | 20.1 | 0.0 | 18.9 | 5.7 | 7.5 | 7.0 | 7.0 | 6.0 | 6.0 | 5.5 | 5.5 |
| | Percent of GDP unless otherwise indicated | | | | | | | | | | |
| Gross investment | 29.9 | 32.1 | 23.8 | 24.1 | 26.7 | 25.8 | 26.1 | 27.5 | 28.1 | 28.8 | 31.0 |
| Gross savings | 12.3 | 23.6 | 17.4 | 17.5 | 11.3 | 17.8 | 20.0 | 21.9 | 23.9 | 25.4 | 27.9 |
| Fiscal balance | 0.0 | -3.5 | -6.3 | -4.6 | -5.4 | -5.3 | -4.0 | -2.6 | -2.3 | -1.5 | -1.5 |
| Current account balance | -15.5 | -2.5 | -6.4 | -6.5 | -15.3 | -8.0 | -6.0 | -5.6 | -4.2 | -3.4 | -3.1 |
| External public debt outstanding | 41.2 | 52.8 | 55.1 | 45.9 | 45.8 | 45.2 | 43.3 | 41.9 | 39.8 | 37.6 | 36.0 |
| Gross reserves (months of next year imports, eop) | 4.0 | 4.9 | 4.0 | 3.4 | 3.8 | 3.8 | 4.0 | 4.0 | 4.0 | 4.1 | 4.2 |

Sources: Kyrgyz authorities and IMF staff calcualtions.

## Box 2. Kyrgyz Republic: Gold Production in the Kumtor Mine

Geological factors—an unexpected shift of ice and waste into the central pit of the Kumtor mine in early 2012—resulted in a drop in gold production by 40 percent in 2012. The decline was stronger than expected because of additional complications with the bedrock and a lower gold content in the ore. As a result Centerra, Kumtor's parent company, lowered medium-term gold production projections. While half of the 2013 production is expected to fall to the last quarter, Centerra announced that 2013 will be the last year with back-loaded production as the mine continues to build up stock piles.



Sources: Centerea Gold Inc. and IMF staff calculations.

Going forward, production is expected to stabilize at 650 thousand ounces per year. As a result of the ice block removal from the central pit, gold reserves in the mine are expected to be higher, extending the life of the mine by four years to 2026.

## Risks

**11. Political fragility, the narrow structure of the economy, and exogenous shocks are the main risks for the Kyrgyz economy in the near and medium terms (Box 3).** The political transformation into a nascent parliamentary democracy entails risks of political instability. Political turmoil could lead to uncertainty and disruption in policy implementation. The security situation in Afghanistan could also deteriorate after the NATO troop withdrawal in 2014, and this could in turn spill over to neighboring countries, including the Kyrgyz Republic. A key potential economic shock is that a slowdown in global growth could spill over to the Kyrgyz economy via lower remittances and weaker external demand from Russia and Kazakhstan. The economy also remains vulnerable to global oil and food price shocks which could raise imports and inflation, and could also be hit by further disruptions in gold production and lower gold prices. These shocks would aggravate external vulnerabilities by putting pressure on international reserves.

**12. The authorities broadly agreed with the staff's assessment of risks.** They agreed that rebuilding policy buffers and reducing vulnerabilities through fiscal consolidation and continued exchange rate flexibility are key to mitigate these risks. They also agreed to tighten monetary policy as needed to prevent second-round effects of increases in international food and fuel prices on inflation. Moreover, structural reforms geared toward improving the effectiveness of fiscal and monetary policies are expected to help mitigate vulnerabilities.

**Box 3. Kyrgyz Republic: Risk Assessment Matrix 1/**

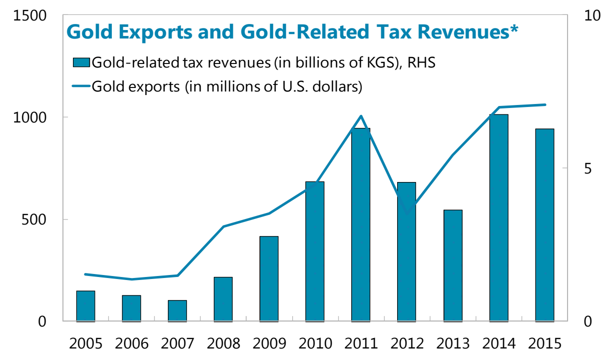
| Risk | Relative Likelihood | Impact if realized |
|---|---|---|
| **Stalled or incomplete delivery of Euro area policy commitments**<br>**Protracted period of slower European growth**<br>**Deeper-than-expected slowdown in emerging markets** | **Medium**<br>**Medium**<br>**Medium** | **Medium**<br>The Kyrgyz Republic would be affected primarily through lower remittances from, and weaker trade with, Russia and Kazakhstan. |
| **Global oil shock triggered by geopolitical events** | **Low** | **Medium**<br>The Kyrgyz Republic would be affected through a higher import value. The current account deficit and inflation would increase. Higher remittances from Russia and higher gold exports would mitigate these effects. |
| **NATO troop withdrawal from Afghanistan in 2014 and closing of the U.S. transit center at the Manas airport in the Kyrgyz Republic**<br>A deteriorating security situation in Afghanistan is likely to spill over to neighboring countries. | **High**<br>Hinges on the ability of Afghan law enforcement to restore and maintain order. | **Medium**<br>A possible influx of refugees, armed extremists, and drugs could destabilize the south of the country and exacerbate ethnic tensions. On top of losses of 1 percent of GDP in annual lease payments from the air base, the Kyrgyz budget would come under pressure to increase security-related spending. |
| **Regional conflict**<br>Continuing ethnic tensions at the border of neighboring countries and regional water disagreements could turn into conflicts. | **Low**<br>The government is working with the local population to prevent ethnic tensions. The regional governments realize the scale of disruption a regional conflict would cause. | **High**<br>The security situation would deteriorate and lead to economic paralysis, widespread ethnic conflicts, and supply chain and trade disruptions. |
| **Political fragility**<br>New parliamentary democracy continues facing challenges. | **High**<br>With many social-economic issues facing the country, the coalition government remains fragile. | **High**<br>In case the government collapses and a new government is not formed swiftly, uncertainty and deterioration in security would follow, leading to disruptions in economic activity. |
| **Disruptions in gold production and lower gold prices**<br>The ongoing dispute with the major gold-mining company could lead to a drop in gold production and to lower investor confidence. | **Medium**<br>The parliament ordered to revise the current agreement between the government and the gold company within the next three months. Both parties continue discussions. | **Medium**<br>A further drop in production and lower-than-projected gold prices would adversely affect growth and revenues requiring spending cuts. Another budget cost could stem from potential involvement in litigation. A prolonged dispute would negatively affect investment. |

1/ The RAM shows events that could alter materially 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. The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with authorities.

# PROGRAM DISCUSSIONS: NEAR-TERM ISSUES—MAINTAINING SPENDING RESTRAINT AND ACCELERATING FINANCIAL SECTOR REFORMS

## A. Fiscal Policy

**13. Tax revenue in 2013 is expected to be lower than previously targeted (Tables 5 and 6).** The authorities agreed that import-related revenue, in particular VAT on imports, is expected to be lower than projected earlier, mainly because of lower fuel imports anticipated this year.[3] With lower projected gold production, the associated tax revenue in 2013 will not reach budgeted levels. Moreover, production is now expected to be back-loaded, implying that a larger portion of Kumtor's tax payments will take place in January 2014. The authorities also noted that a larger-than-expected amount of the 2012 advance tax payments by Kumtor will have to be repaid this year.




Sources: Kyrgyz authorities and IMF staff estimates.
* 2013–15 are based on the latest WEO gold price projections and output projections from the major gold-mining company. Tax revenue projections assume the continuation of the current gold taxation regime.

**14. Despite these new developments, the authorities are committed to achieving the 2013 fiscal deficit target (relative to GDP) agreed during the third review (LOI ¶5).** Noting that total spending would need to be lower by 1 percent of GDP compared to levels agreed during the third review, the authorities were still determined to maintain the agreed fiscal consolidation path by cutting nonpriority spending (Text Table 3).[4] Staff agreed with this position, given that social and domestic capital spending would be preserved. The deficit would be mostly financed by external sources. The authorities also intend to temporarily draw down government deposits, which had increased in late 2012 owing to grants from Russia and the ADB. The authorities noted that they do not expect sizable privatization receipts this year because of political constraints that prevent the sale of large state-owned entities.

Text Table 3. Kyrgyz Republic: Fiscal Deviations 1/
(In percent of GDP)

| | 2013 |
|---|---|
| **Total deviation** | **0.0** |
| Contributions to deviation | |
| **Revenue** | **-1.0** |
| VAT revenue | -0.8 |
| Revenue from Kumtor | -0.5 |
| Other tax revenue, incl. Social Fund | 0.4 |
| Nontax revenue | 0.1 |
| Budget grants | -0.6 |
| PIP grants | 0.4 |
| **Spending** | **-1.0** |
| Current spending | -0.5 |
| Domestic capital spending | 0.1 |
| Foreign-financed capital spending | -0.6 |

Sources: Kyrgyz authorities and IMF staff calculations.
1/ Change in the fiscal indicators relative to the third review.

[3] With the recent agreement on Russia's duty free exports of oil products to Tajikistan, Kyrgyz fuel imports are expected to be lower on account of lower fuel re-exports to Tajikistan.

[4] Because the loan from Turkey (US$90 million over 2013–15) was reclassified from a PIP loan to a budget support loan (based on a recent agreement between the Kyrgyz and Turkish governments), foreign-financed capital investment is projected to decline with a corresponding increase in current spending in 2013–14.

**15. The ongoing dispute with Centerra, Kumtor's parent company, entails risks to the budget in 2013 and beyond.** The government noted that the annual revenue loss on account of the special tax regime agreed with Kumtor in 2009 is 1.5 percent of GDP (in 2011, Kumtor's tax payments amounted to 2.1 percent of GDP).[5] According to Centerra, Kumtor operates under a valid agreement approved by the then government and parliament and therefore the tax regime cannot be revised. Parliament requested to resolve the dispute before end-June through cancellation of the special tax treatment agreement for Kumtor. Staff urged the authorities to resolve the dispute in a constructive manner, noting that failure to do so could lead to significant costs and pressures on the budget. The authorities agreed with staff's assessment of the risks and emphasized that they would work with Centerra on a constructive resolution of the dispute (LOI ¶14).

**16. The authorities are strengthening the role of the ministry of finance in core areas of tax policy.** Following the recent return of the tax policy function to the ministry of finance, the authorities will now create a new, adequately staffed tax policy department in the ministry of finance (LOI ¶7, structural benchmark). This department will become the focal point on all tax policy-related matters. The government expects comprehensive technical assistance from the IMF in this area. The authorities have also expressed interest in receiving technical assistance from the IMF that would help identify key challenges in tax administration and provide recommendations regarding future priorities and options for reforms.

**17. Better monitoring the largest state-owned enterprises (SOEs) will help limit potential fiscal costs.** The coverage of the reporting requirements for the 10 largest SOEs was expanded to 20. The expansion of the list should also help mobilize additional revenues through improved monitoring. To prevent the 10 largest SOEs, which are part of the public sector, from contracting nonconcessional loans, as happened recently and led to the nonobservance of the continuous performance criterion, the authorities will issue a government resolution requiring these SOEs to provide all information on their borrowing plans and debt service obligations (LOI ¶7). The government, as the owner of these SOEs, has the power to stop any nonconcessional external borrowing.

**18. Reforms in public financial management (PFM) are continuing.** The government has recently updated the action plan on PFM reforms. As part of this plan, the government has drafted a law on public procurement that is expected to be submitted to parliament for approval in June. This law is expected to enhance the transparency and efficiency of public spending. The authorities will issue a regulation on expanding the coverage of the commitment register to include local budgets and special means. The ministry of finance will also develop and approve regulations on accounting and financial reporting using the unified chart of accounts on the basis of international norms (structural benchmarks). The authorities expect that these measures will enhance control over public spending. They are also working with parliament to ensure that the new Budget Code is in line with recent IMF technical assistance advice and the WB recommendations (LOI ¶8).

---

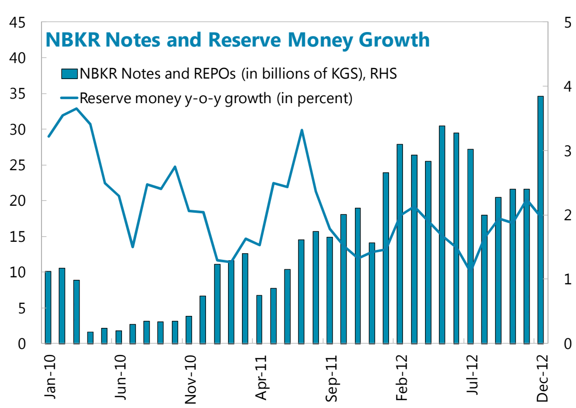
[5] Under the 2009 agreement, Kumtor pays 13 percent of gross revenue. If Kumtor were to operate under the common tax regime, it would pay income tax (11 percent at the current gold price), royalty (5 percent), sales tax (2 percent), and a tax on maintaining infrastructure (2 percent).

**19. The government continues to improve debt management and to reduce the debt service burden on the budget.** The authorities acknowledged that transforming the government securities market into a deep and liquid market requires time (LOI ¶6). Staff proposed to improve the operational infrastructure for the primary market of government securities at the NBKR to develop the domestic debt market. Staff commended the authorities for the discontinuation of direct sales of government securities. The government is looking forward to the upcoming Financial Stability Assessment Program that will assist in identifying reform options to deepen the domestic debt market. The authorities agreed that debt sustainability should be the guiding principle in assessing the financing arrangements of any large-scale infrastructure investments.[6]

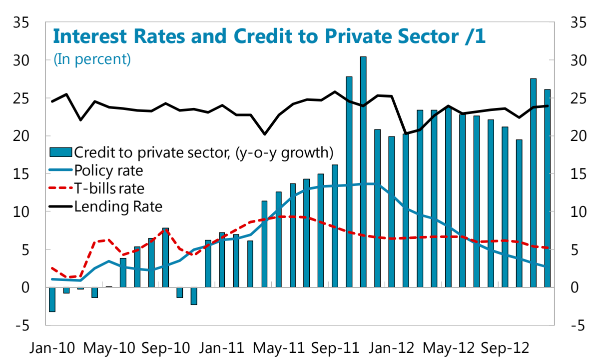
## B. Monetary Policy

**20. Keeping the policy rate low could lead to further increases in reserve money, thereby putting additional pressure on core inflation.** During the first three months of 2013, reserve money growth continued to rise. Staff noted that if this continues, there is a risk of overheating as the negative output gap gradually disappears. Staff therefore advised the NBKR to mop up excess liquidity and contain reserve money growth, and consistent with this, to raise the policy rate gradually to ensure it is positive in real terms (staff also advised the authorities to take steps to improve the monetary transmission mechanism; see bellow ¶33). While the authorities concurred that core inflation remains high and needs to come down to single digits, they were reluctant to commit to raising the policy rate because headline inflation was still at comfortable levels. However, the NBKR also agreed to remain vigilant and tighten monetary policy as needed to prevent second-round effects of potential increases in international food and fuel prices, while being mindful of other risks (LOI ¶9).

**21. Staff stressed that strengthening the NBKRs operational independence is instrumental in raining in inflationary pressures.** The authorities concurred that lending to the economy in support of growth would increase inflation and severely endanger macroeconomic stability. Staff also noted that NBKR lending would lead to market distortions, moral hazard, and, most importantly the NBKR's exposure to vested interests.



Sources: Kyrgyz authorities and IMF staff calculations.



1/ Strong private credit growth in November-December 2012 was because of a one-off factor (a micro-finance institution became a bank and its loan portfolio was integrated in the consolidated balance sheet of banks).

Sources: Kyrgyz authorities and IMF staff calculations.

[6] No new information is available on these projects. A company to conduct the feasibility study was selected recently. The results are expected later this year.

## C. Financial Sector Policies

**22. After repeated attempts to resolve Zalkar have failed, the authorities managed to sell the bank in May.**

- Zalkar was established in late 2010 as the "good bank" following the failure of Asia Universal Bank (AUB), the largest bank at that time. The government became the owner of Zalkar, but committed to selling the bank to complete the resolution process that had started with the split of AUB. Zalkar is currently the ninth largest commercial bank in the Kyrgyz Republic and not systemically important. Nonetheless, Zalkar's sale is important to strengthen the NBKR's credibility in resolving problem banks and to improve investor confidence in the financial sector.

- The last auction, originally planned for December 2012, was postponed to end-January 2013 to allow potential buyers additional time for due diligence. Notwithstanding the extra time, the auction was unsuccessful.

- The authorities saw liquidation of Zalkar as very difficult in the current political situation and stepped up their efforts to sell the bank to complete its resolution. ITB holding, one of the shareholders of ITB bank of Russia signed a contract to buy 90 percent of the shares of Zalkar on May 3, 2013. A direct sale transaction was registered in the Kyrgyz Stock Exchange on the same day. The NBKR confirmed that the buyer was deemed fit and proper. The bank was not immediately recapitalized. However, the buyer committed to meet capital requirements during the five months following the election of a new board of directors scheduled for mid June. Staff noted that it will be essential that recapitalization is completed as planned and Zalkar's operations are closely supervised.

**23. The NBKR has advanced the work on the Banking Code.** The draft Banking Code that the NBKR prepared with the assistance of the resident legal advisor and TA from the Fund was submitted to the government in early April. The NBKR highly valued IMF assistance in this regard. Staff urged the authorities to resist calls to dilute key features of the draft Banking Code when sending it to parliament. In particular, the scope of judicial review of the NBRK's actions should be limited and legal protection of the NBKR's staff enhanced. Furthermore, compulsory bank liquidation should be an out-of-court procedure and the NBKR's governance should be further enhanced by strengthening internal audit procedures and extending the term of engagement of the NBKR's external auditors.

**24. Staff stressed the importance of swift enactment of amendments to the AML/CFT Law and to the relevant provisions of the Criminal Code, and the Payment System Law.** If these amendments are not enacted swiftly, the Financial Action Task Force (FATF) may move the Kyrgyz Republic from the list of jurisdictions under monitoring (gray list) to the list of jurisdictions with strategic AML/CFT deficiencies (black list) that have not made sufficient progress in addressing these deficiencies. It is important to preserve key provisions related to the criminalization of money laundering and financing of terrorism, the definition of suspicious transactions, customer due diligence, the supervisory framework and the status of the State Financial Intelligence Service Unit in line with TA recommendations. The authorities agreed to increase the communication with parliament to ensure that the amendments to the AML/CFT legal framework and the payment system law are adopted swiftly and in line with Fund technical assistance (LOI ¶13).

## D. Other Program Issues

**25. Program design and modification of performance criteria.** The review schedule and timing of disbursements is outlined in Table 11. Revised and new quantitative performance criteria (QPC), indicative targets, are proposed for June, September, and December 2013, and March and June 2014 (LOI Table 1). The authorities are requesting an upward modification of the QPC on the NBKR's net international reserves for end-June 2013, mostly reflecting higher-than-expected reserve accumulation in 2012, with the subsequent modification of the QPC on the NBKR's net domestic assets. The authorities are also requesting a downward modification of the QPC on general government overall deficit target for end-June 2013 to reflect the changed profile of external grants. The authorities are requesting a waiver of nonobservance of the continuous PC on the ceiling on contracting or guaranteeing of new nonconcessional debt by public sector based on corrective actions being taken. The structural conditionality—existing and proposed—is summarized in Table 14 and LOI Table 2.

**26. Program monitoring will continue to be performed on a semi-annual basis.** The fifth review will be based on continuous and end-June 2013 QPC and the sixth review on continuous and end-December 2013 QPC. Structural conditionality will focus on macro-critical areas, particularly strengthening the tax policy function and public expenditure management, which is essential to support fiscal consolidation efforts (LOI Tables 1 and 2).

**27. Financing.** Donors and the Fund are expected to fill the estimated balance of payments gap in 2013–14 (Text Table 4). In 2013, the authorities are more cautious in projecting donor support, given the disbursement delays in the past. The authorities requested that the fifth and sixth disbursements under the ECF arrangement be directed to the budget.

Text Table 4. Kyrgyz Republic: Balance of Payment Financing Gaps, 2013–15

| | 2013 | | 2014 | | 2015 | |
|---|---|---|---|---|---|---|
| | 3rd Rev. | Proj. | 3rd Rev. | Proj. | 3rd Rev. | Proj. |
| | (In millions of U.S. Dollars) | | | | | |
| Financing Gap | 126.1 | 115.2 | 122.3 | 114.5 | 69.5 | 37.9 |
| Identified budget support | 97.3 | 86.3 | 0.0 | 100.1 | 0.0 | 0.0 |
| World Bank | 43.2 | 39.7 | 0.0 | 33.5 | 0.0 | 0.0 |
| Asian Development Bank | 20.0 | 0.0 | 0.0 | 20.0 | 0.0 | 0.0 |
| European Union | 34.1 | 6.6 | 0.0 | 6.6 | 0.0 | 0.0 |
| Other 1/ | 0.0 | 40.0 | 0.0 | 40.0 | 0.0 | 0.0 |
| Unidentified budget support | 0.0 | 0.0 | 107.9 | 0.0 | 69.5 | 37.9 |
| IMF ECF disbursement | 28.8 | 28.9 | 14.4 | 14.4 | 0.0 | 0.0 |
| | (In percent of GDP) | | | | | |
| Financing Gap | 2.0 | 1.6 | 1.4 | 1.4 | 0.8 | 0.5 |
| Identified budget support | 0.0 | 1.2 | 0.0 | 1.2 | 0.0 | 0.0 |
| World Bank | 0.0 | 0.5 | 0.0 | 0.4 | 0.0 | 0.0 |
| Asian Development Bank | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 | 0.0 |
| European Union | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 |
| Other | 0.0 | 0.6 | 0.0 | 0.5 | 0.0 | 0.0 |
| Unidentified budget support | 1.6 | 0.0 | 1.2 | 0.0 | 0.8 | 0.5 |
| IMF ECF disbursement | 0.4 | 0.4 | 0.2 | 0.2 | 0.0 | 0.0 |
| *Memorandum item:* | | | | | | |
| GDP (in millions of U.S. dollars) | 6,998 | 7,234 | 7,799 | 8,041 | 8,289 | 8,715 |

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

# ARTICLE IV DISCUSSIONS: ACHIEVING SUSTAINABLE AND INCLUSIVE GROWTH

**28. Discussions centered on policies needed to secure sustainable and inclusive private sector-led growth over the medium term.** The authorities agreed that reducing the reliance on external aid and ensuring medium-term fiscal sustainability is essential for macroeconomic stability. They also acknowledged that creating a well-functioning financial sector is needed to support private sector-led growth. Finally, the government agreed that work on improving the regulatory burden on businesses should continue. Traction of previous IMF advice has been broadly satisfactory (Box 1).

## A. Promoting Fiscal Sustainability

**29. Restoring fiscal sustainability will be essential in the medium term.** The authorities recognized that the budget has become more dependent on external assistance since 2009, when the global crisis hit, and 2010, the year of the internal crisis. They also agreed that creating a sound and predictable revenue base and reducing the dependency on external assistance will play a pivotal role in reducing the structural deficit (defined as the nongold structural deficit excluding grants, see Box 4).[7] This would help achieve debt sustainability, the key anchor of fiscal policy, with public debt declining to 42 percent by 2018 (see Annex I in Country Report No. 12/139). At about 50 percent of GDP, the Kyrgyz Republic's public debt is among the highest in the region. Staff noted that with no significant correlation between growth and tax policy, and low fiscal multipliers in small open economies such as the Kyrgyz Republic, fiscal consolidation is not expected to be a significant drag on growth. Staff agreed with the authorities that while cutting inefficient spending is not expected to harm growth, employment and social objectives will need to be safeguarded.

**30. The authorities agreed that embarking on a sustainable medium-term fiscal path will require tax policy measures (see Selected Issues Note "Tax Policy in the Kyrgyz Republic").** In particular, staff emphasized measures such as removing tax exemptions and raising rates for import-related taxes. In addition, gradually phasing out the turnover (sales) tax would remove distortions. As an offsetting measure for losses from removing the turnover tax, staff suggested a moderate VAT rate increase. The authorities agreed that some tax policy measures are needed, in particular those related to removing some of existing tax exemptions and raising the excise rates. However, the authorities noted that phasing out the turnover tax and raising the VAT rate would result in an uneven distribution of the tax burden on VAT payers. The authorities argued that they need to conduct a comprehensive analysis of the revenue cost from the current tax policy setting. Staff supported this view and noted that the proposed tax policy measures would help prepare the budget for the loss in nontax revenue from the expected closure of the U.S. transit center at the Manas airport in 2014.

[7] The fiscal impulse from the nongold primary structural deficit excluding grants is similar to the one from the nongold overall structural deficit excluding grants.

## Box 4. Kyrgyz Republic: Computing Structural Fiscal Balances

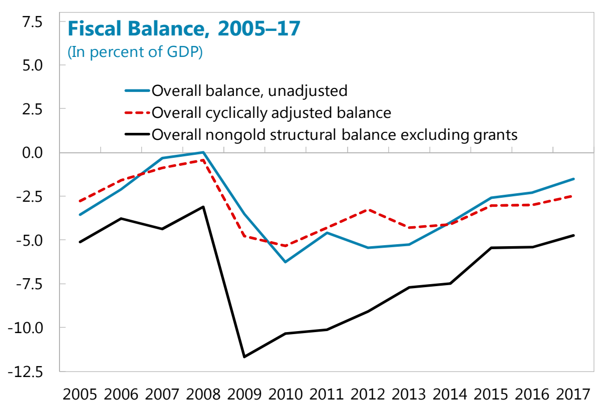
The nongold structural balance excluding grants (the structural balance) shows gradual fiscal consolidation that should be maintained going forward.[1] In 2009, the structural deficit reached about 12 percent of GDP. Since then, the authorities have been gradually reducing the structural deficit but the dependence on external grants remains strong at 3 percent of GDP on average in 2010–12. While the conventional deficit measure points toward some fiscal expansion in 2012 and 2013, the structural balance shows a negative fiscal impulse, which is similar to the fiscal impulse from the nongold primary structural deficit excluding grants. The cyclically adjusted deficit in 2013, however, indicates a positive fiscal impulse, but this is largely explained by the recovery in the gold sector. To bring the deficit to a sustainable level, the authorities will need to reduce the structural balance to 5 percent of GDP by 2017, implying annual consolidation of 1 percent of GDP. With a structural deficit of 5 percent of GDP, the unadjusted deficit would fall to 1.5 percent of GDP. At this level, with strengthened revenue collection and streamlined expenditure, dependence on external assistance would be lower—grants would decline to 1 percent of GDP by 2017.

Kyrgyz Republic: Fiscal Impulse, 2005–17

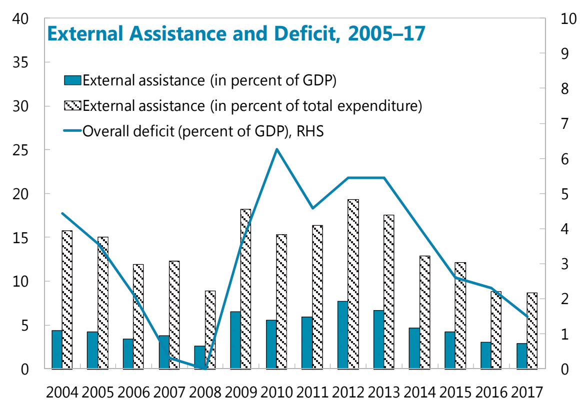
(In percent of GDP)

| | 2005 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Overall balance, unadjusted | -0.9 | -0.3 | 3.5 | 2.8 | -1.7 | 0.9 | -0.1 | -1.3 | -1.4 | -0.3 | -0.8 |
| Overall cyclically adjusted balance | -2.3 | -0.4 | 4.3 | 0.6 | -1.1 | -1.0 | 1.0 | -0.2 | -1.1 | 0.0 | -0.5 |
| Overall nongold structural balance | -2.3 | -0.9 | 5.3 | 1.1 | -0.5 | -0.5 | -0.3 | -0.2 | -1.6 | -0.2 | -0.6 |
| Overall nongold structural balance excluding grants | -2.3 | -1.3 | 8.6 | -1.3 | -0.2 | -1.1 | -1.3 | -0.2 | -2.0 | 0.0 | -0.6 |

Sources: Kyrgyz authorities and IMF staff estimates.




Sources: Kyrgyz authorities and IMF staff calculations.



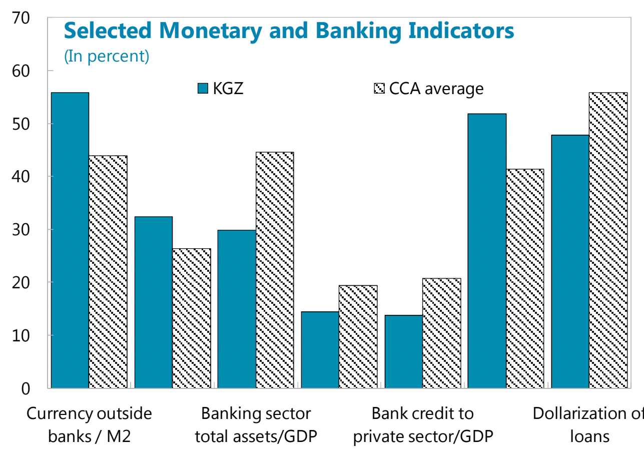

Sources: Kyrgyz authorities and IMF staff calculations.

[1] Potential GDP was estimated using the Hodrick-Prescott filter. Using the aggregated approach (IMF, 2011) general government revenues and expenditures were adjusted for cyclical changes using commonly assumed elasticities of one for revenues and zero for expenditures. The nongold structural balance was derived by excluding gold-related revenues from total revenues and using cyclically adjusted nongold GDP. No adjustment was made for asset prices (real estate and equities) given their limited association with tax receipts (lack of asset prices data is another constraint). The results should be interpreted with caution, however, as the quality of the estimate of potential output is constrained by the short span of the series.

**31. More fiscal space is needed for priority spending.** Although the authorities have made progress in achieving the Millennium Development Goals, more work is needed (Table 15). Health, education, and infrastructure remain underfunded, leading to diminishing capacity to generate growth. Notwithstanding increases in spending on social assistance programs in 2012 and a projected rise in 2013 (the cumulative increase in 2011–13 would be 60 percent), it remains low. In addition, security-related spending may have to increase following the withdrawal of NATO troops from Afghanistan. Staff stressed that streamlining expenditures will need to advance forcefully, in particular cuts in inefficient spending, and civil service and public procurement reforms would yield fiscal savings. The authorities agreed that ensuring financial sustainability of the pension system in the medium term and more reforms to beef up social protection and education are needed. Staff also advised to improve targeting of social protection measures to ensure that the most vulnerable segments of the population are reached. A Programmatic Expenditure Review conducted by the World Bank should help the authorities to address these challenges.

## B. Supporting Financial Deepening While Maintaining Financial Stability

**32. The authorities agreed that creating a deeper financial sector will be critical to generate savings and support private sector-led growth.** Staff noted that shallow financial markets remain an impediment for growth. The interest rate channel remains impaired, with the policy rate having little or no impact on lending rates and inflation (see Selected Issues Note "Transmission Channels of Monetary Policy in the Kyrgyz Republic"). The authorities acknowledged that underdeveloped capital markets and weak confidence discourage banks to invest excess liquidity and to de-dollarize.



Sources: Kyrgyz authorities and IMF staff calculations.

**33. Staff's recommendations to strengthen the operational framework for monetary policy received cautious support at the central bank.** The NBKR agreed in principle with the staff's advice—based on recent TA and examples from other countries that have been in a similar position—to introduce the policy rate as an instrument that will signal the monetary stance to the economy and will serve as an operational target for open market operations, instead of the discount rate currently used. However, the NBKR indicated that more analysis and time is needed to review the role, function, and mechanism for setting the policy rate, as well as the role of other instruments necessary to create a corridor around the new policy rate. The NBKR will develop a model with the help of the IMF and EBRD to improve inflation forecasting. The NBKR agreed to further improve its communication about the macroeconomic outlook and forecast through more regular and frequent press briefings, expert and discussion forums, and publishing notes and articles.

## C. Strengthening Balance of Payments Stability

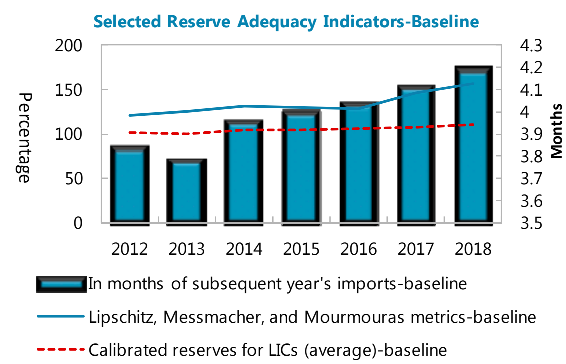
**34. The real effective exchange rate (REER) is broadly in line with fundamentals (see Selected Issues Note "Exchange Rate Assessment and Reserve Adequacy in the Kyrgyz Republic").** The REER has not changed materially since the previous assessment conducted in mid-2011. Current estimates indicate a small undervaluation of 2.1 percent on average (Text Table 5). Although the current account deficit widened substantially, the nominal exchange rate depreciated by 2 percent in 2012, mainly supported by strong capital inflows from official assistance.[8] With the NBKR intervening in the exchange market only in early 2012, the volume of net foreign exchange sales was substantially lower than in 2011. Staff and the NBKR shared the view that maintaining exchange rate flexibility has been crucial for the Kyrgyz Republic to absorb shocks during the crisis and that this practice should continue. The authorities broadly agreed with the staff assessment of the exchange rate.[9]

Text Table 5. Kyrgyz Republic: Econometric Assessments of the Real Exchange Rate Disequilibrium [1/]

| CGER Methodology | Estimate |
|---|---|
| Equilibrium Real Exchange Rate Approach | -7.7 |
| Macroeconomic Balance Approach | -8 |
| External Sustainability Approach | 9.4 |
| Average | -2.1 |

1/ Positive numbers indicate an overvaluation. Staff estimates using CGER toolkit.

**35. However, continuous current account deficits remain a concern for balance of payment stability (see Selected Issues Note "Exchange Rate Assessment and Reserve Adequacy in the Kyrgyz Republic").** The large deficit reflects insufficient national savings relative to investments supported by sizable official external resources. While supporting investment is needed for growth, the accompanying wide current account deficit increases external vulnerabilities. The assessment of foreign reserve adequacy shows that the current level of reserves may not be sufficiently resilient to external shocks or further disruptions in gold production. If the recent drop in the gold price (by US$200 per ounce) lasts throughout 2013, the current account deficit would widen by 1 percent of GDP and foreign reserves would decline by 0.2 months of imports. To reduce such vulnerabilities, raising private and public savings are key. Financial sector reform is expected to support this. Staff projects a gradual decline of the current account deficit on account of these factors, which would be supported by greater diversification of exports and continued fiscal consolidation.



Source: IMF Staff calculations.

---

8 Balance of payments data remains deficient and subject to uncertainties. The authorities are addressing these deficiencies with the help of IMF TA.

9 The Kyrgyz Republic maintains a Multiple Currency Practice (MCP), which predates the ECF arrangement. 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, this has never happened. New trading software in the foreign exchange market, which is being tested currently, is expected to eliminate the existing segmentation of the foreign exchange market and remove the MCP.

## D. Improving Competitiveness Through Structural Reforms

**36. Staff argued that despite improvements in the business climate legislation, implementation is lagging behind (see Selected Issues Note "Business Environment and Governance").** Weak economic governance and a high level of perceived corruption are still seen as key hurdles to the development of the Kyrgyz economy. The authorities agreed that creating a level playing field for all businesses and more decisive business environment and governance reforms are needed to boost medium- and long-term growth, promote diversification, increase FDI, and raise employment. The government is also committed to resolve the dispute with Centerra constructively to ensure that it does not lead to disruptions in gold production and hurt the overall investment climate. It agreed that a stable and predictable investment climate with proper contract enforcement, strengthened property rights, less red tape, and addressing corruption are essential for attracting investment and spurring private sector-led growth.

**37. Staff emphasized the importance of strengthening transparency and accountability in the energy sector.** Below cost-recovery electricity tariffs, weak governance, and a poor regulatory framework render the energy sector financially unviable and unattractive for investment. Energy sector finances suffer from a long overdue need to raise domestic electricity tariffs, which the government finds difficult to implement on the back of political economy considerations. To date, poor management of the sector has led to asset dilapidation. The quasi-fiscal deficit in the energy sector, estimated at around 3 percent of GDP, is unsustainable with the current tariffs at below cost recovery levels.

**38. The staff reiterated that the State Development Bank (SDB) will have to operate in line with principles of good governance and transparency (see Selected Issues Note "Best Practices for Establishing Development Banks").** The authorities are drafting the regulations of the State Development Bank (SDB) in line with the law approved by parliament. The government agreed that all SDB regulations need to be consistent with international best practices and principles of good governance and transparency. The authorities reiterated their commitment to cooperate closely with IMF staff and the other donors on the SDB charter (LOI ¶15).

**39. The full effect of possible accession to the Kazakhstan-Russia-Belarus Customs Union (CU) is unclear at this stage and will depend on the outcome of negotiations.** This year, the authorities intend to develop a road map for joining the CU. The road map will define the legal and technical framework of accession compliant with WTO requirements. Accession to the CU is expected to secure the current concessional terms for oil products imported from the CU countries, mainly Russia. External tariffs for non-CU countries could increase, reducing the Kyrgyz Republic's attractiveness for Chinese imports for re-export to other CIS countries. The authorities noted that over time, accession could enable the Kyrgyz Republic to take advantage of increased regional trade, which could boost investment in the country. Staff advised the authorities to carefully examine the challenges as well as the benefits of accession to the CU. The authorities have commissioned an in-depth study on the impact of CU accession.[10]

# STAFF APPRAISAL

**40. The Kyrgyz economy is recovering well after contracting in 2012, but vulnerabilities remain.** The disruption in production in the largest gold-mining company took a heavy toll on the economy, resulting in a negative overall growth rate and a higher current account deficit. GDP in 2013 is expected to grow by 7.4 percent, and inflation should settle at around 7 percent. Persistent current account deficits remain a concern for balance of payments stability. However, beginning in 2013 the current account deficit is projected to decline mainly on the back of higher export earnings and robust growth of remittances. A slowdown of growth in the main trade partners, Russia and Kazakhstan, or disruptions in gold production and lower-than-expected gold prices, pose risks.

**41. Improving the business climate, governance, and institutions remains a key pillar of sustainable and inclusive growth.** A stable and predictable investment climate and addressing perceived corruption will be essential for attracting more investment. Evenhanded and consistent application of the existing business legislation would improve business confidence and foster high and sustainable private sector-led growth. The authorities' continued commitment to cooperate with staff on the setup of the SDB is welcome and will help ensure that the SDB is established in line with the commitments under the ECF arrangement and does not jeopardize macro-financial stability.

**42. Restoring fiscal sustainability will be essential, as the budget has become more dependent on external assistance since the 2009 global and 2010 domestic crises.** In the near term, fiscal consolidation is expected to be achieved through nonpriority expenditure restraint, PFM reforms, and further strengthening tax administration. Over the medium term, creating a sound and predictable revenue base and reducing the dependency on external assistance will play a pivotal role in reducing the structural deficit. The recent move of the tax policy function back to the ministry of finance is welcome as it should help shield tax policy decisions from political considerations and pave the way for better revenue performance in the future. The authorities are also mindful of the need to create fiscal space for priority spending, such as health, education, and infrastructure accompanied with the improvement in the quality of spending. The planned work on pension reform will be instrumental to make the pension system more equitable and affordable and financially viable in the future.

**43. Tight monetary policy continues to be warranted to keep inflation at bay.** The central bank needs to stand ready to mop up excess liquidity through NBKR notes and gradually increase the policy rate to better signal the monetary stance to the market. The NBKR needs to effectively use

[10] The European Bank for Reconstruction and Development highlights in its "Transition Report 2012: Integration across Borders" that the CU could bring benefits, but also costs and risks to its member countries. The report emphasizes that at this early stage, assessing potential costs and benefits for CU members more thoroughly is premature.

the recent IMF TA findings and recommendations to overhaul its current monetary policy framework, notwithstanding its limited means to impact economic activity and inflation. This will lay the ground work for a more sophisticated monetary policy framework that will enable the NBKR to exercise better control over inflation. It is crucial that the NBKR continues resisting pressures to lend in support of the economic growth.

**44. The financial system is broadly stable, but vulnerabilities remain.** Although it took longer than anticipated, the sale of Zalkar is welcome and should help boost confidence in the financial sector. However, it will be essential that the bank is in full compliance with capital requirements by end-2013. Disposing of the remaining 10 percent of the bank's shares would reaffirm the government's commitment to strengthen financial sector stability. The banking code, once approved, will constitute a milestone toward restoring confidence in the banking system, leveling the playing field and setting the stage for higher private savings. It will also strengthen the NBKRs independence in dealing with problem banks. It is essential that the key features of the Code are preserved during the parliamentary approval process. In particular, compulsory bank liquidation should be an out-of-court procedure and the NBKR's autonomy and governance should be further enhanced. Timely enactment of the amendments to the AML/CFT Law (customer due diligence, supervisory framework, and the Financial Intelligence Unit) and to the relevant provisions of the Criminal Code, and the Payment System Law will be necessary to avoid the very strong possibility that the Kyrgyz Republic is placed on the FATF AML/CFT strategic deficiencies black list.

**45. Staff recommends completion of the fourth review** and approval of the request for a waiver of nonobservance of the continuous PC on the ceiling on contracting or guaranteeing of new nonconcessional debt by the public sector based on corrective actions being taken. Staff also recommends approval of the request for modification of the performance criteria for end-June 2013, and establishment of new performance criteria for end-December 2013. The modified performance criteria and policies for the remainder of 2013 are appropriate to achieve the program's objectives.

**46.** The staff recommends that the next Article IV consultation with the Kyrgyz Republic be held in accordance with the Board Decision No. 14747-(10/96), adopted September 28, 2010 (as amended), on Article IV consultation cycles.

## Table 1. Kyrgyz Republic: Selected Social and Economic Indicators, 2010–18

I. Social and Demographic Indicators

| | | | |
|---|---|---|---|
| Population (million, 2010) | 5.5 | GINI Index (2009) | 36.2 |
| Unemployment rate (official, 2010) | 8.6 | Life expectancy at birth in years (2010) | 69.1 |
| Poverty rate (2011) | 36.1 | Adult literacy rate (percent of population) | 99.0 |
| GNI per capita (2011, Atlas method, U.S. dollars) | 880 | Infant mortality (per 1000 live births) | 32.8 |

II. Economic Indicators

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|
| | Act. | Act. | Act. | | | Proj. | | | |
| Nominal GDP (in billions of soms) | 220.4 | 286.0 | 304.4 | 348.1 | 398.5 | 444.8 | 491.9 | 545.9 | 604.1 |
| Nominal GDP (in millions of U.S. dollars) | 4,794 | 6,199 | 6,473 | 7,234 | 8,041 | 8,715 | 9,356 | 10,081 | 10,885 |
| Real GDP (growth in percent) | -0.5 | 6.0 | -0.9 | 7.4 | 7.5 | 5.3 | 5.0 | 5.0 | 5.0 |
| Nongold real GDP (growth in percent) | -2.1 | 5.6 | 5.0 | 4.5 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| GDP per capita (in U.S. dollars) | 875 | 1,120 | 1,158 | 1,282 | 1,411 | 1,514 | 1,609 | 1,717 | 1,835 |
| Consumer prices (12-month percent change, eop) | 18.9 | 5.7 | 7.5 | 7.0 | 7.0 | 6.0 | 6.0 | 5.5 | 5.5 |
| Consumer prices (12-month percent change, average) | 7.8 | 16.6 | 2.8 | 8.6 | 7.2 | 6.6 | 6.0 | 5.7 | 5.4 |
| Investment and savings (in percent of GDP) | | | | | | | | | |
| Investment | 23.8 | 24.1 | 26.7 | 25.8 | 26.1 | 27.5 | 28.1 | 28.8 | 31.0 |
| Public | 5.4 | 5.5 | 7.8 | 6.4 | 6.7 | 7.1 | 7.6 | 7.9 | 9.8 |
| Private | 18.4 | 18.6 | 18.8 | 19.4 | 19.4 | 20.4 | 20.5 | 20.9 | 21.3 |
| Savings | 17.4 | 17.5 | 11.3 | 17.8 | 20.0 | 21.9 | 23.9 | 25.4 | 27.9 |
| Public | -0.4 | 0.9 | 2.1 | 1.1 | 2.7 | 4.5 | 5.3 | 6.4 | 8.3 |
| Private | 17.9 | 16.6 | 9.3 | 16.7 | 17.4 | 17.4 | 18.6 | 19.0 | 19.6 |
| Savings-investment balance | -6.4 | -6.5 | -15.3 | -8.0 | -6.0 | -5.6 | -4.2 | -3.4 | -3.1 |
| General government finances (in percent of GDP) 1/ | | | | | | | | | |
| Total revenue and grants | 30.5 | 31.8 | 34.5 | 32.0 | 32.1 | 31.8 | 32.6 | 32.7 | 32.9 |
| *Of which:* Tax revenue | 22.3 | 23.1 | 26.0 | 25.4 | 25.7 | 25.8 | 26.4 | 26.6 | 26.8 |
| Total expenditure (including net lending) | 36.6 | 36.3 | 39.8 | 37.2 | 36.1 | 34.4 | 34.9 | 34.2 | 34.3 |
| *Of which* : Current expenditure | 31.0 | 30.9 | 32.4 | 30.8 | 29.5 | 27.4 | 27.3 | 26.3 | 24.5 |
| Capital expenditure | 5.4 | 5.5 | 7.8 | 6.4 | 6.7 | 7.1 | 7.6 | 7.9 | 9.8 |
| Overall fiscal balance | -6.3 | -4.6 | -5.4 | -5.3 | -4.0 | -2.6 | -2.3 | -1.5 | -1.5 |
| Primary balance | -5.4 | -3.6 | -4.5 | -4.3 | -3.3 | -1.9 | -1.6 | -0.7 | -0.8 |
| Primary balance excluding grants | -8.2 | -6.6 | -7.1 | -5.7 | -4.6 | -2.7 | -2.7 | -1.7 | -1.7 |
| Overall balance excluding energy infrastructure projects | -6.3 | -3.9 | -2.1 | -3.3 | -2.6 | -1.3 | -2.3 | -1.5 | -1.5 |
| Total public debt 2/ | 60.3 | 50.1 | 48.9 | 48.6 | 47.1 | 45.6 | 44.7 | 43.0 | 41.6 |
| Banking sector | | | | | | | | | |
| Reserve money (percent change, eop) | 18.4 | 12.8 | 17.7 | 16.4 | 15.7 | 15.7 | 15.0 | 14.7 | 14.5 |
| Broad money (percent change, eop) | 21.1 | 14.9 | 23.8 | 19.8 | 18.5 | 17.8 | 17.1 | 16.9 | 16.4 |
| Credit to private sector (percent change, eop) | 6.3 | 20.8 | 26.2 | 21.0 | 18.9 | 22.0 | 25.9 | 20.1 | 15.1 |
| Credit to private sector (in percent of GDP) | 12.5 | 11.7 | 13.8 | 14.6 | 15.2 | 16.6 | 18.9 | 20.4 | 21.3 |
| Velocity of broad money 3/ | 3.2 | 3.6 | 3.1 | 3.0 | 2.9 | 2.7 | 2.6 | 2.4 | 2.3 |
| Interest rate 4/ | 5.5 | 6.6 | 5.2 | ... | ... | ... | ... | ... | ... |
| External sector | | | | | | | | | |
| Current account balance (in percent of GDP) | -6.4 | -6.5 | -15.3 | -8.0 | -6.0 | -5.6 | -4.2 | -3.4 | -3.1 |
| Export of goods and services (in millions of U.S. dollars) | 2,526 | 3,388 | 3,538 | 3,996 | 4,450 | 4,774 | 5,121 | 5,489 | 5,881 |
| Export growth (percent change) | -1.1 | 34.1 | 4.4 | 12.9 | 11.4 | 7.3 | 7.3 | 7.2 | 7.1 |
| Import of goods and services (in millions of U.S. dollars) | 3,917 | 5,100 | 6,450 | 6,445 | 6,851 | 7,251 | 7,706 | 8,195 | 8,722 |
| Import growth (percent change) | 6.0 | 30.2 | 26.5 | -0.1 | 6.3 | 5.8 | 6.3 | 6.3 | 6.4 |
| Gross International reserves (in millions of U.S. dollars) | 1,716 | 1,831 | 2,061 | 2,160 | 2,389 | 2,565 | 2,753 | 2,989 | 3,456 |
| Gross reserves (months of next year imports, eop) | 4.0 | 3.4 | 3.8 | 3.8 | 4.0 | 4.0 | 4.0 | 4.1 | 4.2 |
| External public debt outstanding (in percent of GDP) | 55.1 | 45.9 | 45.8 | 45.2 | 43.3 | 41.9 | 39.8 | 37.6 | 36.0 |
| External public debt service-to-export ratio (in percent) | 3.6 | 2.9 | 2.7 | 2.5 | 2.5 | 2.6 | 3.4 | 3.3 | 3.7 |
| *Memorandum items:* | | | | | | | | | |
| Exchange rate (soms per U.S. dollar, average) | 46.0 | 46.1 | 47.0 | ... | ... | ... | ... | ... | ... |
| Real effective exchange rate (2005=100) (average) | 113.5 | 122.6 | 121.6 | ... | ... | ... | ... | ... | ... |
| Gold related tax receipts of the general government (percent of GDP) | 2.0 | 2.1 | 1.5 | ... | ... | ... | ... | ... | ... |

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ General government comprises State Government and Social Fund finances. State government comprises central and local governments.
2/ Calculated at end-period exchange rates.
3/ Twelve-month GDP over end-period broad money.
4/ Interest rate on three-month treasury bills.

## Table 2. Kyrgyz Republic: Balance of Payments, 2010–18

(In millions of U.S. dollars)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|
| | Act. | Act. | | | | Proj. | | | |
| Current account balance 1/ | -306 | -405 | -993 | -582 | -486 | -488 | -391 | -339 | -336 |
| Excluding transfers | -1,697 | -2,242 | -3,055 | -2,778 | -2,902 | -3,073 | -3,286 | -3,409 | -3,580 |
| Trade balance | -1,160 | -1,690 | -2,676 | -2,363 | -2,283 | -2,350 | -2,523 | -2,645 | -2,818 |
| Exports, fob | 1,833 | 2,271 | 2,290 | 2,614 | 2,990 | 3,219 | 3,395 | 3,630 | 3,826 |
| CIS countries | 838 | 1,024 | 1,462 | 1,528 | 1,624 | 1,743 | 1,825 | 1,958 | 2,043 |
| *Of which:* Energy products | 74 | 131 | 119 | 118 | 119 | 125 | 127 | 130 | 133 |
| *Of which:* Re-exports of consumer goods | 54 | 94 | 96 | 101 | 65 | 35 | 15 | 5 | 3 |
| Non-CIS countries | 995 | 1,247 | 828 | 1,087 | 1,366 | 1,476 | 1,570 | 1,672 | 1,784 |
| *Of which:* Gold | 668 | 1,006 | 562 | 793 | 1,043 | 1,138 | 1,205 | 1,287 | 1,383 |
| Imports, fob | 2,993 | 3,962 | 4,967 | 4,977 | 5,273 | 5,569 | 5,918 | 6,275 | 6,644 |
| CIS countries | 1,590 | 2,018 | 2,487 | 2,520 | 2,642 | 2,735 | 2,853 | 2,964 | 3,073 |
| *Of which:* Energy (including for re-exports) | 772 | 865 | 1,047 | 975 | 982 | 986 | 998 | 1,024 | 1,054 |
| Non-CIS countries | 1,403 | 1,943 | 2,480 | 2,457 | 2,631 | 2,834 | 3,065 | 3,310 | 3,572 |
| *Of which:* Goods for re-exports | 49 | 86 | 87 | 92 | 59 | 32 | 14 | 4 | 3 |
| Services | -231 | -21 | -236 | -86 | -118 | -127 | -62 | -61 | -23 |
| Receipts | 693 | 1,117 | 1,248 | 1,381 | 1,460 | 1,555 | 1,726 | 1,859 | 2,055 |
| Payments | -924 | -1,138 | -1,484 | -1,468 | -1,578 | -1,682 | -1,788 | -1,920 | -2,078 |
| Income | -305 | -530 | -143 | -328 | -500 | -596 | -701 | -703 | -739 |
| Interest payments | -36 | -31 | -37 | -123 | -139 | -155 | -173 | -184 | -191 |
| Other net income | -269 | -500 | -105 | -206 | -361 | -441 | -529 | -519 | -548 |
| Current Transfers (net) 1/ | 1,391 | 1,837 | 2,062 | 2,196 | 2,416 | 2,585 | 2,896 | 3,070 | 3,244 |
| *Of which:* Private | 1,313 | 1,755 | 1,998 | 2,198 | 2,418 | 2,587 | 2,898 | 3,072 | 3,225 |
| Capital Account | 10 | 121 | 350 | 85 | 71 | 50 | 81 | 81 | 85 |
| Official 2/ | 129 | 121 | 367 | 102 | 89 | 68 | 99 | 99 | 103 |
| Private | -120 | 0 | -18 | -18 | -18 | -18 | -18 | -18 | -18 |
| Financial account | 530 | 670 | 617 | 494 | 550 | 593 | 500 | 501 | 730 |
| Commercial banks | -22 | -12 | 0 | -50 | -50 | -50 | -50 | -50 | 0 |
| Medium- and long-term loans (net) | 22 | 361 | 190 | 134 | 111 | 137 | 132 | 158 | 137 |
| Disbursement 1/ | 444 | 592 | 687 | 684 | 556 | 642 | 748 | 756 | 848 |
| *Of which:* Loan financed PIP (excl. energy investments financed by China) | 150 | 198 | 133 | 129 | 100 | 140 | 171 | 179 | 271 |
| *Of which:* Energy investments financed by China (PIP) | 0 | 41 | 215 | 140 | 110 | 110 | 0 | 0 | 0 |
| Amortization | -422 | -231 | -497 | -549 | -446 | -505 | -616 | -597 | -711 |
| Foreign direct investment | 438 | 694 | 372 | 514 | 589 | 605 | 517 | 493 | 693 |
| Portfolio investment 3/ | 164 | 0 | 6 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other (including SDR allocation) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net short-term flows 4/ | -60 | -208 | 50 | -105 | -100 | -100 | -100 | -100 | -100 |
| Errors and omissions | -131 | -279 | 215 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance | 103 | 107 | 189 | -3 | 135 | 155 | 190 | 243 | 479 |
| Financing | -103 | -107 | -189 | 3 | -135 | -155 | -190 | -243 | -479 |
| Net international reserves | -103 | -107 | -192 | -112 | -249 | -193 | -210 | -264 | -479 |
| Gross official reserves (–, increase) | -112 | -113 | -200 | -99 | -229 | -176 | -187 | -236 | -467 |
| IMF | 9 | 6 | 9 | -13 | -20 | -17 | -23 | -28 | -12 |
| Exceptional Financing (including arrears) | 0 | 0 | 3 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing gap 1/ | 0 | 0 | 0 | 115 | 114 | 38 | 20 | 20 | 0 |
| *Memorandum items:* | | | | | | | | | |
| GDP (in millions of U.S. dollars) | 4,794 | 6,199 | 6,473 | 7,234 | 8,041 | 8,715 | 9,356 | 10,081 | 10,885 |
| Current account balance (percent of GDP) | -6.4 | -6.5 | -15.3 | -8.0 | -6.0 | -5.6 | -4.2 | -3.4 | -3.1 |
| Current account balance excl. official transfers (percent of GDP) 1/ | -8.0 | -7.8 | -16.3 | -8.0 | -6.0 | -5.6 | -4.2 | -3.3 | -3.3 |
| Growth of exports of GNFS (volume, percent) | -16.5 | 17.5 | 4.9 | 14.0 | 9.1 | 8.8 | 8.4 | 5.9 | 5.4 |
| Growth of imports of GNFS (volume, percent) | -15.5 | 12.1 | 30.1 | 0.3 | 8.2 | 7.6 | 7.6 | 6.9 | 6.7 |
| Terms of trade (goods, percentage change) | -8.8 | -4.8 | 2.4 | -0.1 | 2.3 | 0.8 | 0.6 | 1.0 | 1.0 |
| Gold price (U.S. dollars per ounce) | 1,225 | 1,569 | 1,669 | 1,593 | 1,589 | 1,605 | 1,624 | 1,654 | 1,696 |
| Fuel Price Index (2005=100) | 146.7 | 193.0 | 194.2 | 189.1 | 181.1 | 174.2 | 169.5 | 166.9 | 165.2 |
| External Public Debt (in millions of U.S.dollars) 5/ | 2,644 | 2,845 | 2,966 | 3,268 | 3,482 | 3,652 | 3,722 | 3,792 | 3,922 |
| As percent of GDP | 55.1 | 45.9 | 45.8 | 45.2 | 43.3 | 41.9 | 39.8 | 37.6 | 36.0 |
| External public debt service-to-exports ratio 5/ 6/ | 3.6 | 2.9 | 2.7 | 2.5 | 2.5 | 2.6 | 3.4 | 3.3 | 3.7 |
| Gross reserves 7/ | 1,716 | 1,831 | 2,061 | 2,160 | 2,389 | 2,565 | 2,753 | 2,989 | 3,456 |
| In months of subsequent year's imports | 4.0 | 3.4 | 3.8 | 3.8 | 4.0 | 4.0 | 4.0 | 4.1 | 4.2 |

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

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

| | 2010 | 2011 | 2012 | 2013 | | | |
|---|---|---|---|---|---|---|---|
| | Dec. Act. | Dec. Act. | Dec. Act. | Mar. Act. | Jun. Proj. | Sep. Proj. | Dec. Proj. |
| | (In millions of soms) | | | | | | |
| Net foreign assets | 65,127 | 71,420 | 87,159 | 87,783 | 88,992 | 90,347 | 95,616 |
| Net international reserves | 73,475 | 79,629 | 93,046 | 93,579 | 94,990 | 96,345 | 101,646 |
| Long-term foreign liabilities | -8,482 | -8,344 | -6,192 | -6,089 | -6,303 | -6,303 | -6,335 |
| Other foreign assets | 134 | 135 | 305 | 293 | 305 | 305 | 305 |
| Net domestic assets | -16,529 | -16,616 | -22,670 | -24,084 | -22,184 | -20,104 | -20,563 |
| Net claims on general government | -2,053 | -1,158 | -2,968 | -4,776 | -2,802 | -1,977 | -1,229 |
| *Of which:* Total government deposits (including foreign exchange deposits) | -7,243 | -6,480 | -5,182 | -6,390 | -4,452 | -3,640 | -2,853 |
| *Of which:* Securitized government debt | 3,027 | 3,121 | 2,311 | 1,690 | 1,750 | 1,762 | 1,725 |
| Claims on commercial banks | 87 | -398 | -3,822 | -3,738 | -3,518 | -1,915 | -2,553 |
| *Of which:* NBKR Notes | -668 | -1,359 | -3,047 | -3,669 | -3,215 | -2,292 | -2,615 |
| Claims of other financial corporations | -523 | -156 | 0 | -8 | -197 | -217 | -250 |
| Other items net | -14,040 | -14,904 | -15,880 | -15,562 | -15,667 | -15,995 | -16,530 |
| Reserve money | 48,597 | 54,803 | 64,489 | 63,699 | 66,808 | 70,243 | 75,053 |
| Currency in circulation | 43,290 | 49,867 | 58,252 | 56,700 | 59,134 | 61,822 | 65,296 |
| Commercial banks' reserves | 5,307 | 4,936 | 6,237 | 6,999 | 7,675 | 8,421 | 9,757 |
| *Of which:* Required reserves | 2,174 | 3,143 | 3,948 | 4,077 | 4,513 | 4,934 | 5,012 |
| | (Contribution to reserve money growth, in percent) 1/ | | | | | | |
| Net foreign assets | 26.3 | 12.9 | 28.7 | 1.0 | 2.8 | 4.9 | 13.1 |
| Net domestic assets | -8.0 | -0.2 | -11.0 | -2.2 | 0.8 | 4.0 | 3.3 |
| *Of which:* Net claims on general government | -1.0 | 1.8 | -3.3 | -2.8 | 0.3 | 1.5 | 2.7 |
| Reserve money | 18.4 | 12.8 | 17.7 | -1.2 | 3.6 | 8.9 | 16.4 |
| *Of which:* Currency in circulation | 18.4 | 13.5 | 15.3 | -2.4 | 1.4 | 5.5 | 10.9 |
| *Memorandum items:* | | | | | | | |
| Reserve money growth (12-month change, in percent) | 18.4 | 12.8 | 17.7 | 18.4 | 17.8 | 16.7 | 16.4 |
| Gross International Reserves (in millions of U.S. dollars) | 1,716 | 1,831 | 2,061 | 2,093 | 2,059 | 2,069 | 2,160 |
| Net international reserves (in millions of U.S. dollars) | 1,526 | 1,650 | 1,870 | 1,868 | 1,869 | 1,882 | 1,962 |
| Exchange rate, som per U.S. dollar, end of period | 47.1 | 46.5 | 47.4 | … | … | … | … |

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

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

| | 2010 | 2011 | 2012 | 2013 | | | |
|---|---|---|---|---|---|---|---|
| | Dec. | Dec. | Dec | Mar. | Jun. | Sept. | Dec |
| | Act. | Act. | Act. | Proj. | Proj. | Proj. | Proj. |
| | (In millions of soms) | | | | | | |
| Net foreign assets | 71,425 | 77,214 | 90,023 | 90,884 | 92,810 | 94,887 | 100,921 |
| *Of which:* Long-term foreign liabilities (-) | -2,386 | -2,314 | 0 | 0 | 0 | 0 | 0 |
| Net domestic assets | -2,217 | 2,314 | 8,460 | 7,115 | 13,081 | 18,204 | 17,062 |
| Domestic credit | 23,379 | 30,293 | 38,336 | 37,673 | 42,744 | 49,195 | 50,088 |
| Net claims on general government | -4,195 | -3,029 | -3,701 | -4,151 | -2,382 | -1,378 | -762 |
| Credit to the rest of the economy | 27,575 | 33,322 | 42,036 | 41,823 | 45,127 | 50,573 | 50,850 |
| *Of which:* In foreign exchange | 14,599 | 17,510 | 21,814 | 21,578 | 23,147 | 25,788 | 25,777 |
| Other items net | -25,596 | -27,979 | -29,876 | -30,558 | -29,663 | -30,991 | -33,026 |
| Broad money (M2X) | 69,208 | 79,528 | 98,483 | 97,999 | 105,891 | 113,091 | 117,983 |
| *Of which:* | | | | | | | |
| Broad money, excluding foreign exchange deposits (M2) | 53,745 | 62,125 | 77,461 | 75,438 | 80,303 | 84,928 | 92,355 |
| Currency held by the public | 41,471 | 47,220 | 54,521 | 53,473 | 55,750 | 58,264 | 62,294 |
| Total domestic currency deposit liabilities | 12,274 | 14,906 | 22,939 | 21,965 | 24,553 | 26,664 | 30,061 |
| | (Contribution to broad money growth, in percent) 1/ | | | | | | |
| Net foreign assets | 19.8 | 8.4 | 16.1 | 0.9 | 2.8 | 4.9 | 11.1 |
| Net domestic assets | 1.3 | 6.5 | 7.7 | -1.4 | 4.7 | 9.9 | 8.7 |
| Domestic credit | 6.0 | 10.0 | 10.1 | -0.7 | 4.5 | 11.0 | 11.9 |
| Net claims on general government | 3.1 | 1.7 | -0.8 | -0.5 | 1.3 | 2.4 | 3.0 |
| Credit to the rest of the economy | 2.8 | 8.3 | 11.0 | -0.2 | 3.1 | 8.7 | 8.9 |
| Other items (net) | -4.6 | -3.4 | -2.4 | -0.7 | 0.2 | -1.1 | -3.2 |
| Broad money (M2X) | 21.1 | 14.9 | 23.8 | -0.5 | 7.5 | 14.8 | 19.8 |
| *Of which:* | | | | | | | |
| Broad money, excluding foreign exchange deposits (M2) | 18.0 | 12.1 | 19.3 | -2.1 | 2.9 | 7.6 | 15.1 |
| Currency held by the public | 13.3 | 8.3 | 9.2 | -1.1 | 1.2 | 3.8 | 7.9 |
| Total deposit liabilities | 4.7 | 3.8 | 10.1 | -1.0 | 1.6 | 3.8 | 7.2 |
| *Memorandum items:* | | | | | | | |
| Broad money (M2X) (12-month change, in percent) | 21.1 | 14.9 | 23.8 | 21.1 | 19.8 | 19.6 | 19.8 |
| Credit to the rest of the economy (12-month change, in percent) | 6.3 | 20.8 | 26.2 | 19.5 | 21.4 | 30.3 | 21.0 |
| Credit to the rest of the economy (in percent of GDP) | 12.5 | 11.7 | 13.8 | 13.4 | 14.1 | 15.2 | 14.6 |
| M2X velocity 2/ | 3.2 | 3.6 | 3.1 | 3.2 | 3.0 | 3.0 | 3.0 |
| M2X multiplier | 1.42 | 1.45 | 1.53 | 1.54 | 1.59 | 1.61 | 1.57 |
| Dollarization indicators (in percent) | | | | | | | |
| Loan dollarization | 52.9 | 52.5 | 51.9 | 51.6 | 51.3 | 51.0 | 50.7 |
| Deposit dollarization | 55.7 | 53.9 | 47.8 | 50.7 | 51.0 | 51.4 | 46.0 |

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

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

## Table 5. Kyrgyz Republic: General Government Finances, 2010–15
(In millions of soms, unless indicated otherwise)

| | 2010<br>Year<br>Act. | 2011<br>Year<br>Act. | 2012<br>Year<br>Act. | 2013<br>Year<br>Proj. | 2013<br>Year<br>3rd Rev. | 2014<br>Year<br>Proj. | 2014<br>Year<br>3rd Rev. | 2015<br>Year<br>Proj. |
|---|---|---|---|---|---|---|---|---|
| Total revenue and grants | 67,293 | 91,057 | 104,999 | 111,348 | 112,312 | 128,040 | 123,019 | 141,622 |
| Total revenue | 61,117 | 82,433 | 97,112 | 106,418 | 106,864 | 122,678 | 119,813 | 137,867 |
| Current revenue | 60,230 | 81,682 | 96,286 | 105,159 | 105,655 | 121,207 | 118,399 | 136,226 |
| Tax revenue | 49,233 | 66,027 | 79,037 | 88,364 | 89,414 | 102,383 | 100,175 | 114,990 |
| Income tax | 13,110 | 17,122 | 18,537 | 19,662 | 20,555 | 24,111 | 22,747 | 26,917 |
| VAT 1/ | 14,602 | 20,353 | 25,769 | 29,224 | 31,293 | 32,744 | 34,909 | 37,356 |
| Excises | 1,689 | 2,187 | 2,827 | 3,775 | 3,506 | 4,824 | 3,866 | 5,669 |
| Customs | 4,348 | 7,147 | 9,430 | 10,688 | 9,530 | 12,447 | 10,743 | 14,108 |
| Land tax | 799 | 762 | 757 | 871 | 920 | 914 | 1,104 | 960 |
| Road tax and Emergency Fund 1/ | 42 | 10 | 4 | 0 | 0 | 0 | 0 | 0 |
| New turnover tax 1/ | 3,699 | 4,128 | 4,989 | 5,829 | 5,400 | 6,673 | 6,224 | 7,425 |
| Social Fund (excluding government contribution) | 9,870 | 13,010 | 15,125 | 16,478 | 16,464 | 18,557 | 18,574 | 20,230 |
| Other | 1,073 | 1,309 | 1,599 | 1,838 | 1,746 | 2,114 | 2,008 | 2,326 |
| Nontax revenue | 10,997 | 15,655 | 17,249 | 16,795 | 16,240 | 18,824 | 18,225 | 21,236 |
| Capital revenue | 887 | 751 | 826 | 1,259 | 1,209 | 1,471 | 1,414 | 1,642 |
| Grants | 6,176 | 8,624 | 7,887 | 4,930 | 5,448 | 5,362 | 3,206 | 3,754 |
| Program grants | 3,753 | 3,963 | 3,151 | 1,073 | 2,976 | 2,062 | 2,589 | 1,424 |
| PIP grants | 2,423 | 4,661 | 4,736 | 3,857 | 2,472 | 3,300 | 617 | 2,330 |
| Total expenditure (including net lending) | 80,741 | 103,787 | 121,278 | 129,620 | 130,167 | 143,979 | 138,635 | 153,188 |
| Total expenditure (excluding net lending) | 80,175 | 104,125 | 122,567 | 129,620 | 130,167 | 143,979 | 138,635 | 153,188 |
| Current expenditure | 68,246 | 88,408 | 98,731 | 107,361 | 106,527 | 117,426 | 115,775 | 121,670 |
| Wages | 16,903 | 23,740 | 26,889 | 29,685 | 29,930 | 32,505 | 32,624 | 34,241 |
| Transfers and subsidies | 9,313 | 10,958 | 10,870 | 10,856 | 10,814 | 12,312 | 12,258 | 13,925 |
| Social Fund expenditures | 18,993 | 23,652 | 29,661 | 34,756 | 34,680 | 38,243 | 38,542 | 41,950 |
| Interest | 1,812 | 2,756 | 2,929 | 3,469 | 3,482 | 2,887 | 3,511 | 3,185 |
| Purchases of other goods and services | 21,226 | 27,302 | 28,382 | 28,596 | 27,621 | 31,479 | 28,840 | 28,370 |
| Capital expenditure | 11,929 | 15,717 | 23,836 | 22,259 | 23,640 | 26,553 | 22,860 | 31,517 |
| Domestically financed capital expenditure | 3,310 | 2,659 | 3,413 | 5,438 | 5,013 | 12,828 | 10,128 | 16,407 |
| Foreign financed PIP loans | 6,196 | 8,397 | 15,686 | 12,964 | 16,156 | 10,425 | 12,115 | 12,780 |
| Energy infrastructure projects | 0 | 1,863 | 10,117 | 6,736 | 6,804 | 5,451 | 5,506 | 5,615 |
| Foreign financed PIP grants | 2,423 | 4,661 | 4,736 | 3,857 | 2,471 | 3,300 | 617 | 2,330 |
| Net lending | 565 | -338 | -1,289 | 0 | 0 | 0 | 0 | 0 |
| Discrepancy | -345 | -387 | -292 | 0 | 0 | 0 | 0 | 0 |
| Primary balance excluding grants | -18,157 | -18,986 | -21,529 | -19,734 | -19,821 | -18,414 | -15,311 | -12,136 |
| Primary balance | -11,981 | -10,361 | -13,642 | -14,804 | -14,373 | -13,052 | -12,105 | -8,381 |
| Overall balance | -13,792 | -13,117 | -16,571 | -18,273 | -17,855 | -15,939 | -15,616 | -11,566 |
| Overall balance excluding energy infrastructure projects | -13,792 | -11,254 | -6,454 | -11,537 | -11,052 | -10,488 | -10,110 | -5,951 |
| Total financing | 13,792 | 13,117 | 16,571 | 18,273 | 17,855 | 15,939 | 15,616 | 11,566 |
| External financing | 6,818 | 9,351 | 15,597 | 15,175 | 15,863 | 10,905 | 12,488 | 10,040 |
| Public investment program | 6,196 | 8,397 | 16,133 | 12,964 | 16,156 | 10,425 | 12,115 | 12,780 |
| Program support loans | 2,282 | 2,930 | 1,375 | 4,588 | 1,905 | 2,973 | 2,878 | 510 |
| Total amortization | -1,660 | -1,976 | -1,911 | -2,378 | -2,198 | -2,493 | -2,505 | -3,250 |
| Domestic financing | 918 | 3,606 | 820 | 2,939 | 848 | 1,399 | 947 | 332 |
| NBKR | -1,085 | 894 | 511 | 1,739 | -952 | -1,601 | -53 | -668 |
| Commercial banks | 2,205 | 272 | 1,258 | 1,200 | 1,800 | 3,000 | 1,000 | 1,000 |
| Nonbank | -202 | 2,440 | -950 | 0 | 0 | 0 | 0 | 0 |
| Privatization | 173 | 159 | 153 | 159 | 1,144 | 3,635 | 2,181 | 1,193 |
| Use of KRDF investments abroad | 5,883 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

## Table 6. Kyrgyz Republic: General Government Finances, 2010–15
(In percent of GDP)

| | 2010 | 2011 | 2012 | 2013 | 2013 | 2014 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| | Year | Year | Year | Year | Year | Year | Year | Year |
| | Act. | Act. | Act. | Proj. | 3rd Rev. | Proj. | 3rd Rev. | Proj. |
| Total revenue and grants | 30.5 | 31.8 | 34.5 | 32.0 | 33.0 | 32.1 | 31.5 | 31.8 |
| Total revenue | 27.7 | 28.8 | 31.9 | 30.6 | 31.4 | 30.8 | 30.7 | 31.0 |
| Current revenue | 27.3 | 28.6 | 31.6 | 30.2 | 31.1 | 30.4 | 30.3 | 30.6 |
| Tax revenue | 22.3 | 23.1 | 26.0 | 25.4 | 26.3 | 25.7 | 25.7 | 25.8 |
| Income tax | 5.9 | 6.0 | 6.1 | 5.6 | 6.0 | 6.1 | 5.8 | 6.1 |
| VAT 2/ | 6.6 | 7.1 | 8.5 | 8.4 | 9.2 | 8.2 | 8.9 | 8.4 |
| Excises | 0.8 | 0.8 | 0.9 | 1.1 | 1.0 | 1.2 | 1.0 | 1.3 |
| Customs | 2.0 | 2.5 | 3.1 | 3.1 | 2.8 | 3.1 | 2.8 | 3.2 |
| Land tax | 0.4 | 0.3 | 0.2 | 0.3 | 0.3 | 0.2 | 0.3 | 0.2 |
| Road tax and Emergency Fund 2/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| New turnover tax 2/ | 1.7 | 1.4 | 1.6 | 1.7 | 1.6 | 1.7 | 1.6 | 1.7 |
| Social Fund (excluding government contribution) | 4.5 | 4.5 | 5.0 | 4.7 | 4.8 | 4.7 | 4.8 | 4.5 |
| Other | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Nontax revenue | 5.0 | 5.5 | 5.7 | 4.8 | 4.8 | 4.7 | 4.7 | 4.8 |
| Capital revenue | 0.4 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Grants | 2.8 | 3.0 | 2.6 | 1.4 | 1.6 | 1.3 | 0.8 | 0.8 |
| Program grants | 1.7 | 1.4 | 1.0 | 0.3 | 0.9 | 0.5 | 0.7 | 0.3 |
| Public investment program (PIP) grants | 1.1 | 1.6 | 1.6 | 1.1 | 0.7 | 0.8 | 0.2 | 0.5 |
| Total expenditure (including net lending) | 36.6 | 36.3 | 39.8 | 37.2 | 38.3 | 36.1 | 35.5 | 34.4 |
| Total expenditure (excluding net lending) | 36.4 | 36.4 | 40.3 | 37.2 | 38.3 | 36.1 | 35.5 | 34.4 |
| Current expenditure | 31.0 | 30.9 | 32.4 | 30.8 | 31.3 | 29.5 | 29.7 | 27.4 |
| Wages | 7.7 | 8.3 | 8.8 | 8.5 | 8.8 | 8.2 | 8.4 | 7.7 |
| Transfers and subsidies | 4.2 | 3.8 | 3.6 | 3.1 | 3.2 | 3.1 | 3.1 | 3.1 |
| Social Fund expenditures | 8.6 | 8.3 | 9.7 | 10.0 | 10.2 | 9.6 | 9.9 | 9.4 |
| Interest | 0.8 | 1.0 | 1.0 | 1.0 | 1.0 | 0.7 | 0.9 | 0.7 |
| Purchases of other goods and services | 9.6 | 9.5 | 9.3 | 8.2 | 8.1 | 7.9 | 7.4 | 6.4 |
| Capital expenditure | 5.4 | 5.5 | 7.8 | 6.4 | 7.0 | 6.7 | 5.9 | 7.1 |
| Domestically financed capital expenditure | 1.5 | 0.9 | 1.1 | 1.6 | 1.5 | 3.2 | 2.6 | 3.7 |
| Foreign financed PIP loans | 2.8 | 2.9 | 5.2 | 3.7 | 4.8 | 2.6 | 3.1 | 2.9 |
| Energy infrastructure projects | 0.0 | 0.7 | 3.3 | 1.9 | 2.0 | 1.4 | 1.4 | 1.3 |
| Foreign financed PIP grants | 1.1 | 1.6 | 1.6 | 1.1 | 0.7 | 0.8 | 0.2 | 0.5 |
| Net lending | 0.3 | -0.1 | -0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Discrepancy | -0.2 | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Primary balance excluding grants | -8.2 | -6.6 | -7.1 | -5.7 | -5.8 | -4.6 | -3.9 | -2.7 |
| Primary balance | -5.4 | -3.6 | -4.5 | -4.3 | -4.2 | -3.3 | -3.1 | -1.9 |
| Overall balance | -6.3 | -4.6 | -5.4 | -5.3 | -5.3 | -4.0 | -4.0 | -2.6 |
| Overall balance excluding energy infrastructure projects | -6.3 | -3.9 | -2.1 | -3.3 | -3.2 | -2.6 | -2.6 | -1.3 |
| Total financing | 6.3 | 4.6 | 5.4 | 5.3 | 5.3 | 4.0 | 4.0 | 2.6 |
| External financing | 3.1 | 3.3 | 5.1 | 4.4 | 4.7 | 2.7 | 3.2 | 2.3 |
| PIP | 2.8 | 2.9 | 5.3 | 3.7 | 4.8 | 2.6 | 3.1 | 2.9 |
| Program support loans | 1.0 | 1.0 | 0.5 | 1.3 | 0.6 | 0.7 | 0.7 | 0.1 |
| Total amortization | -0.8 | -0.7 | -0.6 | -0.7 | -0.6 | -0.6 | -0.6 | -0.7 |
| Domestic financing | 0.4 | 1.3 | 0.3 | 0.8 | 0.2 | 0.4 | 0.2 | 0.1 |
| NBKR | -0.5 | 0.3 | 0.2 | 0.5 | -0.3 | -0.4 | 0.0 | -0.2 |
| Commercial banks | 1.0 | 0.1 | 0.4 | 0.3 | 0.5 | 0.8 | 0.3 | 0.2 |
| Nonbank | -0.1 | 0.9 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Privatization | 0.1 | 0.1 | 0.1 | 0.0 | 0.3 | 0.9 | 0.6 | 0.3 |
| Use of KRDF investments abroad | 2.7 | | | | | | | |
| *Memorandum items:* | | | | | | | | |
| Nongold structural deficit excluding grants | -10.3 | -10.1 | -9.1 | -7.7 | … | -7.5 | … | -5.4 |
| Nongold structural primary deficit excluding grants | -9.5 | -9.2 | -8.2 | -6.8 | … | -6.8 | … | -4.7 |

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

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

## Table 7. Kyrgyz Republic: State Government Finances, 2010–15
(In millions of soms, unless indicated otherwise)

| | 2010 Year Act. | 2011 Year Act. | 2012 Year Act. | 2013 Year Proj. | 2014 Year Proj. | 2015 Year Proj. |
|---|---|---|---|---|---|---|
| Total revenue and grants | 57,165 | 77,753 | 89,284 | 94,220 | 108,711 | 120,529 |
| Total revenue | 50,989 | 69,128 | 81,396 | 89,291 | 103,349 | 116,775 |
| Current revenue | 50,360 | 68,672 | 81,160 | 88,681 | 102,650 | 115,995 |
| Tax revenue | 39,363 | 53,017 | 63,912 | 71,886 | 83,826 | 94,759 |
| Income tax | 13,110 | 17,122 | 18,537 | 19,662 | 24,111 | 26,917 |
| VAT 1/ | 14,602 | 20,353 | 25,769 | 29,224 | 32,744 | 37,356 |
| Excises | 1,689 | 2,187 | 2,827 | 3,775 | 4,824 | 5,669 |
| Customs | 4,348 | 7,147 | 9,430 | 10,688 | 12,447 | 14,108 |
| Land tax | 799 | 762 | 757 | 871 | 914 | 960 |
| Road tax and Emergency Fund 1/ | 42 | 10 | 4 | 0 | 0 | 0 |
| New turnover tax 1/ | 3,699 | 4,128 | 4,989 | 5,829 | 6,673 | 7,425 |
| Other | 1,073 | 1,309 | 1,599 | 1,838 | 2,114 | 2,326 |
| Nontax revenue | 10,997 | 15,655 | 17,249 | 16,795 | 18,824 | 21,236 |
| Capital revenue | 629 | 456 | 236 | 610 | 698 | 780 |
| Grants | 6,176 | 8,624 | 7,887 | 4,930 | 5,362 | 3,754 |
| Program grants | 3,753 | 3,963 | 3,151 | 1,073 | 2,062 | 1,424 |
| Public investment program (PIP) grants | 2,423 | 4,661 | 4,736 | 3,857 | 3,300 | 2,330 |
| Total expenditure (including net lending) | 69,532 | 91,059 | 105,940 | 112,543 | 125,238 | 132,841 |
| Total expenditure | 68,967 | 91,397 | 107,229 | 112,543 | 125,238 | 132,841 |
| Current expenditure | 57,038 | 75,680 | 83,393 | 90,284 | 98,684 | 101,323 |
| Wages and Social Fund contributions | 19,110 | 26,935 | 30,559 | 34,461 | 37,814 | 40,232 |
| Transfers and subsidies | 9,313 | 10,958 | 10,870 | 10,856 | 12,312 | 13,925 |
| Transfers to Social Fund | 5,577 | 7,729 | 10,652 | 12,902 | 14,193 | 15,612 |
| Interest | 1,812 | 2,756 | 2,929 | 3,469 | 2,887 | 3,185 |
| Purchases of other goods and services | 21,226 | 27,302 | 28,382 | 28,596 | 31,479 | 28,370 |
| Capital expenditure (including PIP) | 11,929 | 15,717 | 23,836 | 22,259 | 26,553 | 31,517 |
| Domestically financed capital expenditure | 3,310 | 2,659 | 3,413 | 5,438 | 12,828 | 16,407 |
| Foreign financed PIP loans | 6,196 | 8,397 | 15,686 | 12,964 | 10,425 | 12,780 |
| Energy infrastructure projects | 0 | 1,863 | 10,117 | 6,736 | 5,451 | 5,615 |
| Foreign financed PIP grants | 2,423 | 4,661 | 4,736 | 3,857 | 3,300 | 2,330 |
| Financial balance | -11,802 | -13,644 | -17,945 | -18,323 | -16,527 | -12,311 |
| Net lending | 565 | -338 | -1,289 | 0 | 0 | 0 |
| Discrepancy | 233 | -560 | -289 | 0 | 0 | 0 |
| Primary balance | -10,323 | -11,111 | -14,016 | -14,854 | -13,640 | -9,127 |
| Primary balance excluding grants | -16,499 | -19,735 | -21,903 | -19,784 | -19,002 | -12,881 |
| Overall balance | -12,135 | -13,867 | -16,945 | -18,323 | -16,527 | -12,311 |
| Overall Balance excluding energy infrastructure projects | -12,135 | -12,004 | -6,829 | -11,587 | -11,076 | 0 |
| Total financing | 12,135 | 13,867 | 16,945 | 18,323 | 16,527 | 12,311 |
| External financing | 6,818 | 9,351 | 15,597 | 15,175 | 10,905 | 10,040 |
| PIP | 6,196 | 8,397 | 16,133 | 12,964 | 10,425 | 12,780 |
| Program support loans | 2,282 | 2,930 | 1,375 | 4,588 | 2,973 | 510 |
| Total amortization | -1,660 | -1,976 | -1,911 | -2,378 | -2,493 | -3,250 |
| Domestic financing | -2,757 | 4,356 | 1,194 | 2,989 | 1,987 | 1,078 |
| NBKR | -3,660 | 894 | 511 | 1,739 | -1,601 | -668 |
| Commercial banks | 1,106 | -586 | 947 | 1,250 | 3,588 | 1,746 |
| Nonbank | -202 | 4,047 | -263 | 0 | 0 | 0 |
| Privatization | 173 | 159 | 153 | 159 | 3,635 | 1,193 |

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

## Table 8. Kyrgyz Republic: State Government Finances, 2010–15

(In percent of GDP)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| | Year | Year | Year | Year | Year | Year |
| | Act. | Act. | Act. | Proj. | Proj. | Proj. |
| Total revenue and grants | 25.9 | 27.2 | 29.3 | 27.1 | 27.3 | 27.1 |
| Total revenue | 23.1 | 24.2 | 26.7 | 25.7 | 25.9 | 26.3 |
| Current revenue | 22.9 | 24.0 | 26.7 | 25.5 | 25.8 | 26.1 |
| Tax revenue | 17.9 | 18.5 | 21.0 | 20.7 | 21.0 | 21.3 |
| Income tax | 5.9 | 6.0 | 6.1 | 5.6 | 6.1 | 6.1 |
| VAT 1/ | 6.6 | 7.1 | 8.5 | 8.4 | 8.2 | 8.4 |
| Excises | 0.8 | 0.8 | 0.9 | 1.1 | 1.2 | 1.3 |
| Customs | 2.0 | 2.5 | 3.1 | 3.1 | 3.1 | 3.2 |
| Land tax | 0.4 | 0.3 | 0.2 | 0.3 | 0.2 | 0.2 |
| Retail sales tax 1/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| New turnover tax 1/ | 1.7 | 1.4 | 1.6 | 1.7 | 1.7 | 1.7 |
| Other | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Nontax revenue | 5.0 | 5.5 | 5.7 | 4.8 | 4.7 | 4.8 |
| Capital revenue | 0.3 | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 |
| Grants | 2.8 | 3.0 | 2.6 | 1.4 | 1.3 | 0.8 |
| Program grants | 1.7 | 1.4 | 1.0 | 0.3 | 0.5 | 0.3 |
| Public investment program (PIP) grants | 1.1 | 1.6 | 1.6 | 1.1 | 0.8 | 0.5 |
| Total expenditure (including net lending) | 31.6 | 31.8 | 34.8 | 32.3 | 31.4 | 29.9 |
| Total expenditure | 31.3 | 32.0 | 35.2 | 32.3 | 31.4 | 29.9 |
| Current expenditure | 25.9 | 26.5 | 27.4 | 25.9 | 24.8 | 22.8 |
| Wages and Social Fund contributions | 8.7 | 9.4 | 10.0 | 9.9 | 9.5 | 9.0 |
| Transfers and subsidies | 4.2 | 3.8 | 3.6 | 3.1 | 3.1 | 3.1 |
| Transfers to Social Fund | 2.5 | 2.7 | 3.5 | 3.7 | 3.6 | 3.5 |
| Interest | 0.8 | 1.0 | 1.0 | 1.0 | 0.7 | 0.7 |
| Purchases of other goods and services | 9.6 | 9.5 | 9.3 | 8.2 | 7.9 | 6.4 |
| Capital expenditure (including PIP) | 5.4 | 5.5 | 7.8 | 6.4 | 6.7 | 7.1 |
| Domestically financed capital expenditures | 1.5 | 0.9 | 1.1 | 1.6 | 3.2 | 3.7 |
| Foreign financed PIP loans | 2.8 | 2.9 | 5.2 | 3.7 | 2.6 | 2.9 |
| Energy infrastructure projects | 0.0 | 0.7 | 3.3 | 1.9 | 1.4 | 1.3 |
| Foreign financed PIP grants | 1.1 | 1.6 | 1.6 | 1.1 | 0.8 | 0.5 |
| Financial balance | -5.4 | -4.8 | -5.9 | -5.3 | -4.1 | -2.8 |
| Net lending | 0.3 | -0.1 | -0.4 | 0.0 | 0.0 | 0.0 |
| Discrepancy | 0.1 | -0.2 | -0.1 | 0.0 | 0.0 | 0.0 |
| Primary balance | -4.7 | -3.9 | -4.6 | -4.3 | -3.4 | -2.1 |
| Primary balance excluding grants | -7.5 | -6.9 | -7.2 | -5.7 | -4.8 | -2.9 |
| Overall balance | -5.5 | -4.8 | -5.6 | -5.3 | -4.1 | -2.8 |
| Overall balance excluding energy infrastructure projects | -5.5 | -4.2 | -2.2 | -3.3 | -2.8 | -1.5 |
| Total financing | 5.5 | 4.8 | 5.6 | 5.3 | 4.1 | 2.8 |
| External financing | 3.1 | 3.3 | 5.1 | 4.4 | 2.7 | 2.3 |
| PIP | 2.8 | 2.9 | 5.3 | 3.7 | 2.6 | 2.9 |
| Program support loans | 1.0 | 1.0 | 0.5 | 1.3 | 0.7 | 0.1 |
| Domestic financing | -1.3 | 1.5 | 0.4 | 0.9 | 0.5 | 0.2 |
| NBKR | -1.7 | 0.3 | 0.2 | 0.5 | -0.4 | -0.2 |
| Commercial banks | 0.5 | -0.2 | 0.3 | 0.4 | 0.9 | 0.4 |
| Nonbank | -0.1 | 1.4 | -0.1 | 0.0 | 0.0 | 0.0 |
| Privatization | 0.1 | 0.1 | 0.1 | 0.0 | 0.9 | 0.3 |

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

## Table 9. Kyrgyz Republic: Social Fund Operations, 2010–15

| | 2010 Year Act. | 2011 Year Act. | 2012 Year Act. | 2013 Year Proj. | 2014 Year Proj. | 2015 Year Proj. |
|---|---|---|---|---|---|---|
| | | | (In millions of soms) | | | |
| Total revenue | 12,336 | 16,500 | 19,386 | 21,904 | 24,638 | 27,084 |
| Total contribution | 12,078 | 16,205 | 18,796 | 21,255 | 23,866 | 26,222 |
| Other revenue | 258 | 295 | 590 | 649 | 772 | 862 |
| Total expenditure | 18,993 | 23,652 | 29,661 | 34,756 | 38,243 | 41,950 |
| Pension Fund | 18,222 | 22,551 | 28,299 | 33,003 | 36,275 | 39,761 |
| Medical Insurance Fund (including old funds) | 690 | 978 | 1,210 | 1,562 | 1,753 | 1,951 |
| Workers' Health Recovery Fund | 81 | 123 | 152 | 191 | 214 | 238 |
| Financial balance | -6,657 | -7,152 | -10,275 | -12,852 | -13,604 | -14,866 |
| Budgetary transfer | 5,577 | 7,729 | 10,652 | 12,902 | 14,193 | 15,612 |
| Discrepancy | 115 | 173 | -3 | 0 | 0 | 0 |
| Overall balance | -965 | 750 | 374 | 50 | 588 | 746 |
| Financing | 965 | -750 | -374 | -50 | -588 | -746 |
| Commercial bank deposits | 965 | 858 | 312 | -50 | -588 | -746 |
| Government bonds | 0 | -1,608 | -686 | 0 | 0 | 0 |
| | | | (In percent of GDP) | | | |
| Total revenue | 5.6 | 5.8 | 6.4 | 6.3 | 6.2 | 6.1 |
| Total contribution | 5.5 | 5.7 | 6.2 | 6.1 | 6.0 | 5.9 |
| Other revenue | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| Total expenditure | 8.6 | 8.3 | 9.7 | 10.0 | 9.6 | 9.4 |
| Pension Fund | 8.3 | 7.9 | 9.3 | 9.5 | 9.1 | 8.9 |
| Medical Insurance Fund (including old funds) | 0.3 | 0.4 | 0.4 | 0.5 | 0.5 | 0.5 |
| Workers' Health Recovery Fund | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | |
| Financial balance | -3.0 | -2.5 | -3.4 | -3.7 | -3.4 | -3.3 |
| Budgetary transfer | 2.5 | 2.7 | 3.5 | 3.7 | 3.6 | 3.5 |
| Discrepancy | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | -0.4 | 0.3 | 0.1 | 0.0 | 0.1 | 0.2 |
| Financing | 0.4 | -0.3 | -0.1 | 0.0 | -0.1 | -0.2 |
| Commercial bank deposits | 0.4 | 0.3 | 0.1 | 0.0 | -0.1 | -0.2 |
| Government bonds | 0.0 | -0.6 | -0.2 | 0.0 | 0.0 | 0.0 |

Sources: Kyrgyz authorities and IMF staff estimates and projections.

## Table 10. Kyrgyz Republic: General Government Operations, GFSM 2001 Presentation, 2010–15

(In millions of soms, unless indicated otherwise)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| | Year | Year | Year | Year | Year | Year |
| | Act. | Act. | Act. | Proj. | Proj. | Proj. |
| Revenue | 68,872 | 93,796 | 124,586 | 115,514 | 132,651 | 146,834 |
| Taxes | 39,363 | 53,017 | 68,456 | 71,886 | 83,826 | 94,760 |
| Taxes on income, profits, and capital gains | 13,110 | 17,122 | 18,537 | 19,662 | 24,111 | 26,917 |
| Taxes on property | 1,664 | 1,682 | 1,724 | 1,977 | 2,180 | 2,373 |
| Taxes on goods and services | 19,990 | 26,668 | 33,585 | 38,827 | 44,240 | 50,449 |
| General taxes on goods and services | 18,301 | 24,481 | 30,758 | 35,052 | 39,417 | 44,780 |
| Value-added taxes | 14,602 | 20,353 | 25,769 | 29,224 | 32,744 | 37,356 |
| Turnover and other general taxes on goods and services | 3,699 | 4,128 | 4,989 | 5,829 | 6,673 | 7,425 |
| Excises | 1,689 | 2,187 | 2,827 | 3,775 | 4,824 | 5,669 |
| Taxes on international trade and transactions | 4,348 | 7,147 | 9,430 | 10,688 | 12,447 | 14,108 |
| Other taxes | 250 | 398 | 635 | 732 | 848 | 912 |
| Social contributions | 12,078 | 16,205 | 18,796 | 21,255 | 23,866 | 26,222 |
| Grants | 6,176 | 8,624 | 19,496 | 4,930 | 5,362 | 3,754 |
| Program grants 1/ | 3,753 | 3,963 | 14,760 | 1,073 | 2,062 | 1,424 |
| Project grants | 2,423 | 4,661 | 4,736 | 3,857 | 3,300 | 2,330 |
| Other revenue | 11,255 | 15,950 | 17,839 | 17,444 | 19,596 | 22,098 |
| Expense | 70,454 | 91,603 | 102,401 | 112,137 | 122,735 | 127,662 |
| Compensation of employees | 19,110 | 26,935 | 30,559 | 34,461 | 37,814 | 40,232 |
| Wages and salaries | 16,903 | 23,740 | 26,889 | 29,685 | 32,505 | 34,241 |
| Social contributions | 2,207 | 3,195 | 3,670 | 4,776 | 5,309 | 5,991 |
| Use of goods and services | 21,226 | 27,302 | 28,382 | 28,596 | 31,479 | 28,370 |
| Interest | 1,812 | 2,756 | 2,929 | 3,469 | 2,887 | 3,185 |
| Subsidies | 1,763 | 2,138 | 2,260 | 2,245 | 3,270 | 3,651 |
| Social benefits | 26,543 | 32,473 | 38,271 | 43,366 | 47,284 | 52,224 |
| Gross operating balance | -1,582 | 2,193 | 22,185 | 3,377 | 9,916 | 19,172 |
| Net acquisition of nonfinancial assets | 11,300 | 15,261 | 23,600 | 21,649 | 25,855 | 30,738 |
| Acquisition of nonfinancial assets | 11,929 | 15,717 | 23,836 | 22,259 | 26,553 | 31,517 |
| Domestically financed | 3,310 | 2,659 | 3,413 | 5,438 | 12,828 | 16,407 |
| Foreign financed | 8,619 | 13,058 | 20,423 | 16,821 | 13,726 | 15,110 |
| Disposals of nonfinancial assets | -629 | -456 | -236 | -610 | -698 | -780 |
| Net lending/borrowing (overall balance) | -12,882 | -13,068 | -1,415 | -18,273 | -15,939 | -11,566 |
| Statistical discrepancy | 345 | 387 | 4,836 | 0 | 0 | 0 |
| Net acquisition of financial assets | -5,279 | -1,579 | -3,067 | -2,438 | -1,446 | 220 |
| Domestic | 604 | -1,579 | -3,067 | -2,438 | -1,446 | 220 |
| Currency and deposits | 211 | -1,082 | -1,625 | -2,278 | 2,189 | 1,413 |
| Loans | 565 | -338 | -1,289 | 0 | 0 | 0 |
| Sales of equity (privatization proceeds) | -173 | -159 | -153 | -159 | -3,635 | -1,193 |
| Foreign | -5,883 | 0 | 0 | 0 | 0 | 0 |
| Net incurrence of liabilities | 7,947 | 11,876 | 3,184 | 15,835 | 14,493 | 11,786 |
| Domestic | 1,129 | 2,524 | -805 | 660 | 3,588 | 1,746 |
| Foreign | 6,818 | 9,351 | 3,989 | 15,175 | 10,905 | 10,040 |
| Program loans | 2,282 | 2,930 | 1,375 | 4,588 | 2,973 | 510 |
| Public investment program loans | 6,196 | 8,397 | 16,133 | 12,964 | 10,425 | 12,780 |
| Amortization | -1,660 | -1,976 | -13,519 | -2,378 | -2,493 | -3,250 |

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Program grants in 2012 include debt forgiveness by Russia (US$188.9 million), Turkey (US$49.7 million), and Germany (US$8.5 million).

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

| Date | Action | Associated Disbursement | Share of Access (In percent) |
|---|---|---|---|
| On June 20, 2011 | Approved three-year ECF arrangement | SDR 9.514 million | 14.3 |
| On December 7, 2011 | Completed the first review based on end-June, 2011 performance criteria | SDR 9.514 million | 14.3 |
| On April 27, 2012 | Completed the second review based on end-December, 2011 performance criteria | SDR 9.514 million | 14.3 |
| On December 3, 2012 | Completed the third review based on end-June, 2012 performance criteria | SDR 9.514 million | 14.3 |
| On or after April 15, 2013 | Completed the fourth review based on end-December, 2012 performance criteria | SDR 9.514 million | 14.3 |
| On or after November 15, 2013 | Completed the fifth review based on end-June, 2013 performance criteria | SDR 9.514 million | 14.3 |
| On or after April 30, 2014 | Completed the sixth and final review based on end-December, 2013 performance criteria | SDR 9.516 million | 14.3 |
| Total | | SDR 66.600 million | 100.0 |

Source: International Monetary Fund.

## Table 12. Kyrgyz Republic: Indicators of Capacity to Repay the Fund, 2013–18 1/

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| Fund obligations based on existing credit | | | | | | |
| (In millions of SDRs) | | | | | | |
| Principal | 6.2 | 13.3 | 11.0 | 15.0 | 18.3 | 19.7 |
| Charges and interest | 0.0 | 0.0 | 0.2 | 0.2 | 0.2 | 0.1 |
| Fund obligations based on existing and prospective credit | | | | | | |
| (In millions of SDRs) | | | | | | |
| Principal | 6.2 | 13.3 | 11.0 | 15.0 | 18.3 | 19.7 |
| Charges and interest | 0.0 | 0.0 | 0.2 | 0.2 | 0.2 | 0.1 |
| Total obligations based on existing and prospective credit | | | | | | |
| In millions of SDRs | 6.2 | 13.3 | 11.3 | 15.2 | 18.4 | 19.9 |
| In millions of U.S. dollars | 9.5 | 20.1 | 17.0 | 22.8 | 27.7 | 29.8 |
| In percent of Gross International Reserves | 0.4 | 0.8 | 0.7 | 0.8 | 0.9 | 0.9 |
| In percent of exports of goods and services | 0.2 | 0.5 | 0.4 | 0.4 | 0.5 | 0.5 |
| In percent of debt service 2/ | 9.7 | 18.5 | 13.9 | 13.0 | 15.1 | 13.6 |
| In percent of GDP | 0.1 | 0.3 | 0.2 | 0.2 | 0.3 | 0.3 |
| In percent of quota | 7.0 | 15.0 | 12.7 | 17.1 | 20.8 | 22.4 |
| Outstanding Fund credit | | | | | | |
| In millions of SDRs | 112.6 | 99.3 | 88.3 | 73.3 | 55.0 | 35.3 |
| In billions of U.S. dollars | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| In percent of Gross International Reserves | 7.9 | 6.3 | 5.2 | 4.0 | 2.8 | 1.5 |
| In percent of exports of goods and services | 4.3 | 3.4 | 2.8 | 2.2 | 1.5 | 0.9 |
| In percent of debt service 2/ | 174.3 | 137.6 | 109.1 | 63.0 | 45.0 | 24.2 |
| In percent of GDP | 2.4 | 1.9 | 1.5 | 1.2 | 0.8 | 0.5 |
| In percent of quota | 126.8 | 111.8 | 99.4 | 82.5 | 61.9 | 39.7 |
| Net use of Fund credit (in millions of SDRs) | 12.8 | (3.8) | (11.0) | (15.0) | (18.3) | (19.7) |
| Disbursements | 19.0 | 9.5 | - | - | - | - |
| Repayments and Repurchases | 6.2 | 13.3 | 11.0 | 15.0 | 18.3 | 19.7 |
| *Memorandum items:* | | | | | | |
| Nominal GDP (in millions of U.S. dollars) | 7,234 | 8,041 | 8,715 | 9,356 | 10,081 | 10,885 |
| Exports of goods and services (in millions of U.S. dollars) | 3,996 | 4,450 | 4,774 | 5,121 | 5,489 | 5,881 |
| Gross International Reserves (in millions of U.S. dollars) | 2,160 | 2,389 | 2,565 | 2,753 | 2,989 | 3,456 |
| Debt service (in millions of U.S. dollars) 2/ | 97.9 | 109.1 | 122.0 | 175.1 | 183.7 | 218.9 |
| Quota (millions of SDRs) | 88.8 | 88.8 | 88.8 | 88.8 | 88.8 | 88.8 |

Sources: IMF staff estimates and projections.

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

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

## Table 13. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility Arrangement, December 2011–December 2012

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

| | 2011 | | | | 2012 | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | December | | | | March | | | | June | | | | September | | | | December | | | |
| | QPC | | | | IT | | | | QPC | | | | IT | | | | QPC | | | |
| | 1st Rev. | Adj. | Act. | Status | 1st Rev. | Adj. | Act. | Status | 2nd Rev. | Adj. | Act. | Status | 2nd Rev. | Adj. | Act. | Status | 3rd Rev. | Adj. | Act. | Status |
| *Quantitative performance criteria 1/* | | | | | | | | | | | | | | | | | | | | |
| 1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars) | 1,694 | 1,586 | 1,638 | Met | 1,633 | 1,600 | 1,635 | Met | 1,635 | 1,611 | 1,725 | Met | 1,678 | 1,653 | 1,731 | Met | 1,723 | 1,781 | 1,819 | Met |
| 2. Ceiling on net domestic assets of the NBKR (eop stock) | -12,384 | -7,303 | -14,080 | Met | -11,868 | -10,476 | -14,915 | Met | -10,368 | -8,993 | -16,271 | Met | -10,491 | -9,031 | -13,079 | Met | -11,633 | -14,035 | -16,271 | Met |
| 3. Ceiling on cumulative overall cash deficit of the general government 2/ | 21,588 | 16,754 | 13,117 | Met | 477 | 49 | 436 | Not met | 7,213 | 7,016 | 3,133 | Met | 12,703 | 17,579 | 10,773 | Met | 17,629 | 18,681 | 16,571 | Met |
| 4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/ | 250 | 250 | 0 | Met | 250 | 250 | 0 | Met | 400 | 400 | 0 | Met | 400 | 400 | 0 | Met | 0 | 0 | 0 | Met |
| 5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars) | 0 | 0 | 0 | Met | 0 | 0 | 0 | Met | 0 | 0 | 0 | Met | 0 | 0 | 0 | Met | 0 | 0 | 0 | Met |
| *Indicative Targets 1/* | | | | | | | | | | | | | | | | | | | | |
| 1. Ceiling on reserve money | 59,116 | 59,116 | 54,803 | Met | 56,772 | 56,772 | 53,782 | Met | 58,339 | 58,339 | 56,696 | Met | 60,222 | 60,222 | 60,175 | Met | 63,574 | 63,574 | 64,489 | Not met |
| 2. Cumulative floor on state government tax collections 2/ | 50,823 | 50,823 | 53,017 | Met | 12,611 | 12,611 | 13,778 | Met | 26,069 | 26,069 | 29,747 | Met | 42,874 | 42,874 | 45,615 | Met | 64,458 | 64,458 | 63,912 | Not met |
| 3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit and Monthly Social Benefit programs 2/ | 2,800 | 2,800 | 2,815 | Met | 722 | 722 | 856 | Met | 1,444 | 1,444 | 1,594 | Met | 2,166 | 2,166 | 2,353 | Met | 2,888 | 2,888 | 3,257 | Met |

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ As defined in the TMU.

2/ Cumulative from the beginning of the year.

3/ External debt contracted or guaranteed with a grant element less than 35 percent. The limit is cumulative from end-December 2010 to end-Septemer 2012 and tied to energy infrastructure projects only.

## Table 14. Kyrgyz Republic: Structural Benchmarks Under the Extended Credit Facility Arrangement, 2012–13

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

## Table 15. Kyrgyz Republic: Millennium Development Goals

| | 1990 | 1995 | 2000 | 2005 | 2011 | LIC 2011 | ECA 2011 | Goals 2015 |
|---|---|---|---|---|---|---|---|---|
| **Goal 1: Eradicate extreme poverty and hunger** | | | | | | | | |
| Employment to population ratio, 15+, total (percent) | *59* | 59 | 60 | 60 | 61 | 71 | 54 | |
| Employment to population ratio, ages 15-24, total (percent) | *41* | 41 | 42 | 39 | 41 | 54 | 35 | |
| GDP per person employed (constant 1990 PPP US$) | 9,031 | 4,878 | 5,948 | 6,096 | 7,216 | 3,241 | 18,911 | |
| Income share held by lowest 20 percent | *11* | *3* | *8* | 6 | 8 | .. | .. | |
| Malnutrition prevalence, weight for age (percent of children under 5) | .. | *8* | .. | *3* | .. | 23 | 1 | |
| Poverty gap at US$1.25 a day (PPP) (percent) | *0* | *9* | *9* | 6 | *1* | *18* | *0* | 0 |
| Poverty headcount ratio at US$1.25 a day (PPP) (percent of population) | *0* | *19* | *34* | 23 | *7* | *48* | *1* | |
| Vulnerable employment, total (percent of total employment) | .. | .. | *52* | 49 | .. | .. | *18* | |
| **Goal 2: Achieve universal primary education** | | | | | | | | |
| Literacy rate, youth female (percent of females ages 15–24) | .. | .. | *100* | .. | *100* | *70* | *99* | 100 |
| Literacy rate, youth male (percent of males ages 15–24) | .. | .. | *100* | .. | *100* | *77* | *99* | 100 |
| Persistence to last grade of primary, total (percent of cohort) | .. | 96 | 93 | 98 | *95* | *56* | .. | 100 |
| Primary completion rate, total (percent of relevant age group) | .. | 103 | 93 | 98 | 96 | 68 | 98 | 100 |
| Adjusted net enrollment rate, primary (percent of primary school age children) | .. | *92* | 92 | 95 | 96 | 81 | 95 | 100 |
| **Goal 3: Promote gender equality and empower women** | | | | | | | | |
| Proportion of seats held by women in national parliaments (percent) | .. | *1* | 2 | 0 | 23 | 20 | 16 | |
| Ratio of female to male primary enrollment (percent) | 102 | 101 | 98 | 99 | 99 | 95 | 99 | 100 |
| Ratio of female to male secondary enrollment (percent) | 99 | .. | 103 | 100 | 100 | 86 | 96 | 100 |
| Ratio of female to male tertiary enrollment (percent) | .. | 125 | 101 | 124 | 124 | 64 | 121 | |
| Share of women employed in the nonagricultural sector (percent of total nonagricultural employment) | .. | *48.5* | 45.8 | 51.9 | *50.6* | .. | *46.9* | |
| **Goal 4: Reduce child mortality** | | | | | | | | |
| Immunization, measles (percent of children ages 12–23 months) | *94* | 97 | 98 | 99 | 97 | 77 | 94 | |
| Mortality rate, infant (per 1,000 live births) | 58 | 48 | 41 | 34 | 27 | 63 | 18 | 38 |
| Mortality rate, under-5 (per 1,000 live births) | 70 | 58 | 47 | 39 | 31 | 95 | 21 | 46 |
| **Goal 5: Improve maternal health** | | | | | | | | |
| Adolescent fertility rate (births per 1,000 women ages 15–19) | .. | *38* | 34 | 33 | 33 | 92 | 26 | |
| Births attended by skilled health staff (percent of total) | 99 | 98 | 99 | 98 | *99* | *47* | *98* | |
| Contraceptive prevalence (percent of women ages 15–49) | .. | *60* | .. | *48* | .. | *37* | *74* | |
| Maternal mortality ratio (modeled estimate, per 100,000 live births) | 73 | 98 | 82 | 77 | *71* | *410* | *32* | |
| Pregnant women receiving prenatal care (percent) | .. | *97* | .. | *97* | .. | *75* | .. | |
| Unmet need for contraception (percent of married women ages 15–49) | .. | *12* | .. | *1* | .. | .. | .. | |
| **Goal 6: Combat HIV/AIDS, malaria, and other diseases** | | | | | | | | |
| Children with fever receiving antimalarial drugs (percent of children under age 5 with fever) | .. | .. | .. | .. | .. | .. | .. | |
| Condom use, population ages 15–24, female (percent of females ages 15–24) | .. | .. | .. | .. | .. | .. | .. | |
| Condom use, population ages 15–24, male (percent of males ages 15–24) | .. | .. | .. | .. | .. | .. | .. | |
| Incidence of tuberculosis (per 100,000 people) | 92 | 168 | 249 | 208 | 128 | 252 | 80 | 46 |
| Prevalence of HIV, female (percent ages 15–24) | .. | .. | .. | .. | 0.3 | 1.5 | .. | 0 |
| Prevalence of HIV, male (percent ages 15–24) | .. | .. | .. | .. | 0.3 | 0.7 | .. | 0 |
| Prevalence of HIV, total (percent of population ages 15–49) | 0.1 | 0.1 | 0.1 | 0.1 | 0.4 | 2.4 | 0.6 | 0 |
| Tuberculosis case detection rate (percent, all forms) | 57 | 44 | 50 | 60 | 80 | 59 | 77 | 28.5 |
| **Goal 7: Ensure environmental sustainability** | | | | | | | | |
| CO2 emissions (kg per PPP US$ of GDP) | *2* | 1 | 1 | 1 | *1* | *0* | *1* | |
| CO2 emissions (metric tons per capita) | *2* | 1 | 1 | 1 | *1* | *0* | *7* | |
| Forest area (percent of land area) | 4.4 | .. | 4.5 | 4.5 | 5.1 | 25.7 | 38.7 | |
| Improved sanitation facilities (percent of population with access) | *93* | 93 | 93 | 93 | *93* | *37* | *84* | 100 |
| Improved water source (percent of population with access) | *78* | 78 | 82 | 87 | *90* | *65* | *96* | 100 |
| Marine protected areas (percent of territorial waters) | .. | .. | .. | .. | .. | .. | *10* | |
| Net ODA received per capita (current US$) | *5* | 62 | 44 | 52 | 95 | 52 | 18 | |
| **Goal 8: Develop a global partnership for development** | | | | | | | | |
| Debt service (PPG and IMF only, percent of exports of goods, services and primary income) | .. | 13 | 10 | 7 | 3 | 4 | 4 | |
| Internet users (per 100 people) | 0.0 | .. | 1.0 | 10.5 | 20.0 | 6.0 | 42.1 | |
| Mobile cellular subscriptions (per 100 people) | 0 | 0 | 0 | 11 | 116 | 42 | 132 | |
| Telephone lines (per 100 people) | 7 | 8 | 8 | 9 | 9 | 1 | 25 | |
| Fertility rate, total (births per woman) | 4 | 3 | 2 | 3 | 3 | 4 | 2 | |
| **Other** | | | | | | | | |
| GNI per capita, Atlas method (current US$) | *520* | 360 | 280 | 450 | 900 | 571 | 7,734 | |
| GNI, Atlas method (current US$) (billions) | *2.3* | 1.6 | 1.4 | 2.3 | 5.0 | 466.0 | 3,156.6 | |
| Gross capital formation (percent of GDP) | 24.2 | 18.3 | 20.0 | 14.3 | 24.2 | 24.8 | 24.7 | |
| Life expectancy at birth, total (years) | 68 | 66 | 69 | 68 | 70 | 59 | 71 | |
| Literacy rate, adult total (percent of people ages 15 and above) | .. | .. | *99* | .. | *99* | *63* | *98* | |
| Population, total (billions) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.8 | 0.4 | |
| Trade (percent of GDP) | 78.8 | 71.8 | 89.4 | 96.4 | 136.2 | 69.5 | 69.6 | |

Source: World Development Indicators.

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

# Appendix I. Letter of Intent

May 20, 2013

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

Dear Ms. Lagarde:

The third review of our economic and financial program, supported by an arrangement under the Extended Credit Facility (ECF), was completed by the IMF Executive Board on December 3, 2012. We are grateful to the IMF for its continued support of our economic reform program.

The ECF arrangement continues to play a critical role in our efforts to maintain macroeconomic stability and promote sustainable and inclusive growth in a low inflation environment. The program has been fundamental in stabilizing the Kyrgyz economy and in consolidating much-needed financial support from donors following the 2010 events. While the economy rebounded strongly in 2011, 2012 turned out to be a challenging year. The political environment has been stable since a new cabinet took over in September 2012, but the disruption in gold production in the largest gold-mining company took a heavy toll on the economy with negative overall growth and a higher current account deficit.

Notwithstanding these challenges, the program remains broadly on track and the government is committed to the reform path under the ECF arrangement. For the fourth review of the ECF-supported program, all performance criteria, except one continuous performance criterion, and all but one of the structural benchmarks were met. However, indicative targets on reserve money and state government tax collections were missed. Structural reforms continued in line with our commitments in the Letter of Intent (LOI) and the Memorandum of Economic and Financial Policies (MEFP) dated June 2, 2011 and the LOIs dated November 17, 2011; April 12, 2012; and November 14, 2012. The government has submitted the anti-money laundering and countering the financing of terrorism (AML/CFT) law and the relevant provisions of the Criminal Code to parliament in December 2012. We have revised the privatization strategy of the Settlement and Savings Company to ensure the disposal of a majority government stake and adopted it on February 27, 2013. We have made significant progress in drafting the new Banking Code with the help of the IMF resident legal advisor and submitted the Code to the government in March 2013. We adopted a government resolution on the procedures for submission of budgets of the next 10 largest state-owned enterprises (SOEs) to be approved and monitored by the government. Regrettably, we were not able to sell Zalkar Bank within the timeframe under the ECF arrangement. However, we managed to sell Zalkar Bank to a fit and proper buyer in early May. The "Electrical Stations"—one of the 10 largest SOEs—signed a nonconcessional loan agreement with the Eurasian Development Bank, in the amount of US$30 million on February 21, 2013, leading to the nonobservance of the continuous quantitative performance criterion on the contracting of new nonconcessional external debt.

In view of the broadly successful implementation of the program to date and our continued commitment to the program, we request completion of the fourth review under the ECF-supported program, and a waiver for missing the continuous quantitative performance criterion on the ceiling on contracting or guaranteeing of new nonconcessional external debt based on corrective actions being taken. We request the fifth disbursement under the ECF arrangement in the amount of SDR 9.514 million (US$14 million). We ask that the fifth and sixth disbursements under the ECF arrangement be channeled to the budget. Moreover, we request the modification of the end-June 2013 quantitative performance criteria to reflect the changed macroeconomic outlook. The government believes that the economic and financial policies set forth in our LOI and MEFP of June 2, 2011, LOIs of November 17, 2011; April 12, 2012; and November 14, 2012, supplemented with this LOI and the modified quantitative performance criteria and updated structural benchmarks (Tables 1 and 2, respectively) are adequate to meet the objectives of the ECF arrangement. During the period of the ECF arrangement, the Kyrgyz government will continue to maintain a policy dialogue with the Fund and stands ready to take additional measures as needed. We will consult with Fund staff on such measures and in advance of revisions contained in the MEFP dated June 2, 2011, LOIs of November 17, 2011; April 12, 2012; and November 14, 2012 and this updated LOI in accordance with Fund policies.

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

## I. Policies for the Remainder of the Year and Beyond

1. The policies and commitments set out in the LOI and MEFP dated June 2, 2011, the LOIs dated November 17, 2011; April 12, 2012; and November 14, 2012, remain valid and are updated with this LOI.

2. **Maintaining macroeconomic stability remains the cornerstone of our program.**

- Growth in 2013 is expected to rebound on the account of the recovery in the gold production and continued strong performance in the nongold sector. We expect growth to be 7 percent on average over the next three years, before stabilizing at 5 percent thereafter.

- Twelve-month inflation dropped slightly over the first three months of 2013 mainly because of a continued decline in food prices. We will continue to keep monetary conditions tight to maintain inflation in single digits in 2013 and beyond.

- The current account deficit is projected to decline in 2013, mainly reflecting the recovery in gold exports. We anticipate that the current account deficit will continue to decline over the medium term.

- Fiscal consolidation is expected to continue in line with the path set out under the ECF arrangement. The fiscal deficit is projected at 5.3 percent in 2013 and expected to decline to 2.6 percent by 2015.

- Public debt in percent of GDP is projected to remain on its downward path in the medium term.

3. **We are mindful of the risks to our medium-term projections.** A deterioration of global economic conditions could spill over to the Kyrgyz economy through reduced external demand and lower remittances from Russia and Kazakhstan. Moreover, a sustained increase in international food and fuel prices could put pressure on inflation and exacerbate external vulnerabilities.

## A. Fiscal Policy

4. **Because of shortfalls in revenues and external financing in 2012, we cut nonpriority outlays, while safeguarding critical social expenditures.** Lower gold production has led to a decline in gold-related revenues. Delays in implementing structural measures agreed with the World Bank added to revenue and financing shortfalls. The revenue-smoothing arrangement, which we negotiated with the Kumtor gold company, and buoyant customs revenues throughout the first nine months of 2012 have partially offset the shortfall in revenues. However, growth in customs revenues decelerated in late 2012. Owing to the decline in the overall resource envelope, we reduced spending on goods and services and capital projects while maintaining social outlays. At the same time, the implementation of foreign-financed energy infrastructure projects was faster than expected. In late 2012, we received external grants that led to a better-than-anticipated overall fiscal deficit—5.4 percent of GDP compared to 6 percent of GDP projected earlier.

5. **We continue to place strong emphasis on fiscal consolidation in 2013 and the medium term.** The government is basing the 2013 budget on conservative revenue forecasts, nonpriority expenditure restraint, and social considerations. The overall fiscal deficit is expected to decline to 5.3 percent of GDP, in line with our commitment to consolidate the fiscal position.

- We do not expect the exceptionally strong growth in customs revenues to continue in 2013. Therefore, tax revenues are no longer anticipated to reach budgeted levels. Nontax revenues in percent of GDP are also expected to decline because of the reform to regularize government provided fee-based services.

- We are continuing our efforts to strengthen tax administration and to reduce noncompliance, including with the support from the IMF. We are implementing a formal compliance improvement plan for several sectors that pose a significant revenue compliance risk. Technical assistance from the IMF would help us identify key challenges in tax administration and provide us with recommendations regarding future priorities and options for reforms.

- The government remains committed to reducing the overall wage bill in percent of GDP. Savings generated by the ongoing civil service reform will allow us to increase wages in segments of the public sector. The ongoing public procurement reform, including the pending introduction of e-procurement, will also generate fiscal savings by reducing outlays on goods and services.

- We will ensure that the pension increase in 2013 continues to be tied to the changes in the minimum subsistence level. We intend to submit the draft pension reform concept note to parliament in October. This concept note will propose various options for making the pension system more equitable and affordable, but will also discuss ways to ensure financial sustainability of the pension system.

6. **We continue to improve debt management and to reduce the debt service burden on the budget.** The medium-term debt management strategy, adopted as part of conditionality under the ECF arrangement, will be updated this year. We acknowledge that transforming the government securities market into a deep and liquid market will take time. To develop the domestic debt market, we are improving the operational infrastructure for the primary market of government securities at the National Bank of the Kyrgyz Republic (NBKR), which will remain the government agent for conducting primary auctions and the central depository for all government securities. We discontinued direct sales of government securities by the ministry of finance and will ensure that the sales take place only at organized auctions. The upcoming Financial Stability Assessment Program will assist us in identifying reform options to deepen the domestic debt market.

7. **We are strengthening the role of the ministry of finance in core aspects of fiscal policy.** We returned the tax policy function to the ministry of finance and will create a new, adequately staffed, department on tax policy in the ministry of finance (structural benchmark). This department will become the focal point on all tax policy-related matters. The government expects comprehensive technical assistance from the IMF in this area. We expanded the coverage of the reporting requirements for the 10 largest state-owned enterprises (SOEs) to 20. The expansion of the list should help mobilize additional revenues and limit potential fiscal costs through improved monitoring. We will ensure that all reports from these SOEs are shared regularly with the ministry of finance. To prevent the 10 largest SOEs, which are part of the public sector, from contracting nonconcessional loans, which recently led to nonobservance of the continuous performance criterion, we will issue a government resolution requiring these SOEs to provide all information on their borrowing plans and debt service. With this information, the ministry of finance can prevent the SOEs from contracting nonconcessional loans or incurring external arrears.

8. **We continue our work on public financial management (PFM) reform and will work with parliament to ensure that the new Budget Code is in line with recent IMF technical assistance advice.** The government has recently updated the action plan on PFM reforms. As part of this plan, we have developed a draft law on public procurement, which we will submit to parliament for approval in June. This law is expected to enhance the transparency and efficiency of public spending. We will issue a regulation on expanding the coverage of the commitment register to include local budgets and special means. The ministry of finance will also develop and approve

regulations on accounting and financial reporting using the unified chart of accounts on the basis of international norms (structural benchmarks). We expect that these measures will enhance control over public spending.

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

9. **The NBKR will maintain a tight monetary policy stance to keep inflation in single digits in 2013 and beyond.** Core inflation remains stubbornly high and the expected recovery in economic activity this year may add to inflationary pressures. We will respond to these pressures by further tightening monetary policy. However, declining international food and fuel prices are expected to partly offset the pressures. We acknowledge that second-round effects of unexpected external price shocks will require further policy actions. The NBKR will maintain its policy of intervening in the foreign exchange market only to smooth excessive volatility and ensure orderly market conditions.

10. **We plan to strengthen the operational framework for monetary policy in order to improve transmission channels.** We welcome suggestions of the recent IMF technical assistance mission in inflation modeling and monetary tools. We will review the role, function, and mechanism for setting the policy rate to better signal the monetary stance to the economy, as well as the role of other instruments necessary to create a corridor around the new policy rate. To better withdraw excess liquidity, we will conduct timely and sufficient OMOs and reassess the maturity of notes used for OMOs. The potential adverse impact on NBKR profits will not be a constraint to the implementation of monetary policy. The NBKR and the ministry of finance will continue the close cooperation to facilitate liquidity management. We will further improve the NBKR's communication about the macroeconomic outlook and the NBKR's forecast through more regular and frequent press briefings, expert and discussion forums, and publishing notes and articles. We will develop a model with the help of the IMF and EBRD during this year to improve inflation forecasting and better understand economic relationships in our country.

11. **We plan to improve reserve management in line with IMF technical assistance recommendations.** The NBKR will develop a comprehensive strategic asset allocation framework and will continue to develop the investment policy further. We intend to review governance procedures and the role of different committees, as well as the risk management framework related to the reserve management activities. We will provide adequate resources (IT, staffing, training, and support from other units) to support the reserve management function in the NBKR.

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

- The government has intensified its efforts to sell Zalkar Bank to a fit and proper buyer. In early May, we managed to sell 90 percent of Zalkar's shares to one of the shareholders of ITB bank of Russia (ITB holding). We will ensure that the bank is in full compliance with capital requirements by end-December 2013.

- We will send the Banking Code to parliament by end-September 2013, in line with our commitments under the ECF arrangement. We will ensure to communicate to parliament the major benefits of the new code so that it is approved in line with IMF TA advice.

13. **We will work with parliament to ensure that the amendments to the AML/CFT legal framework and the payment system law are adopted swiftly and in line with Fund technical assistance.** The Fund technical assistance missions discussed with us the draft provisions of the Criminal Code (on the criminalization of money laundering and financing of terrorism, and confiscation), the Terrorist Assets Freezing Regulations, and the AML/CFT Law (customer due diligence, supervisory framework, and the Financial Intelligence Unit) that were altered during the parliamentary committee review process. We will urge parliament to bring the relevant provisions of these legislations and the provisions on identification of suspicious transactions and on State Financial Intelligence Service in line with IMF TA advice. We will also urge parliament to adopt and publish the AML/CFT law together with the payment system law swiftly. Timely action would help avoid that the Financial Action Task Force places the Kyrgyz Republic on its black list in June 2013.

## C. Structural Policies

14. **We recognize the need to further improve the business environment, a key pillar of sustainable and inclusive growth.** We acknowledged that weak governance is still seen as one of the key impediments to the development of our 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, strengthened property rights, less red tape, and addressing corruption are essential for attracting investment and spurring private sector-led growth.

15. **We will continue close cooperation with IMF staff and other donors on the set-up and operations of the state development bank (SDB).** We are also studying successful examples of development banks in other countries and will reflect on their experience. The government will ensure that all regulations of the SDB currently being drafted are consistent with international best practice and principles of good governance and transparency. All public resources to the SDB will be channeled through the budget.

## D. Program Monitoring

16. **The ECF-supported program will continue to be monitored through quantitative performance criteria, indicative targets, and structural benchmarks.** Quantitative performance criteria and indicative targets for March 2013, June 2013, September 2013, December 2013, March 2014, and June 2014 and continuous performance criteria are set out in Table 1 and structural benchmarks are set out in Table 2. Program reviews will continue to be conducted semi-annually, based on end-June and end-December test dates. The fifth and sixth reviews are expected to take place on or after November 15, 2013, and on or after April 30, 2014, respectively. The understandings between the Kyrgyz authorities and IMF staff regarding the quantitative

performance criteria and structural benchmarks described in this LOI and reporting requirements are further specified in the Technical Memorandum of Understanding as updated in the attached.

Sincerely yours,

/s/

Zhantoro Satybaldyev
Prime Minister of the Kyrgyz Republic

| | |
|---|---|
| /s/ | /s/ |
| Olga Lavrova<br>Minister of Finance of<br>the Kyrgyz Republic | Zina Asankojoeva<br>Chairperson of the National<br>Bank of the Kyrgyz Republic |

Table 1. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, September 2012–June 2014

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

| | 2012 | | | | | | | | 2013 | | | | | | 2014 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | September | | | | December | | | | March | June | | September | | December | March | June |
| | IT | | | | QPC | | | | IT | QPC | | IT | | QPC | IT | IT |
| | 2nd Rev. | Adj. | Act. | Status | 3rd Rev. | Adj. | Act. | Status | 3rd Rev. | 3rd Rev. | Revised | 3rd Rev. | Revised | | | |
| *Quantitative performance criteria 1/* | | | | | | | | | | | | | | | | |
| 1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars) | 1,678 | 1,653 | 1,731 | Met | 1,723 | 1,781 | 1,819 | Met | 1,758 | 1,788 | 1,848 | 1,879 | 1,861 | 1,941 | 1,921 | 1,971 |
| 2. Ceiling on net domestic assets of the NBKR (eop stock) | -10,491 | -9,031 | -13,079 | Met | -11,633 | -14,035 | -16,271 | Met | -13,905 | -11,846 | -14,419 | -12,298 | -11,617 | -10,564 | -16,320 | -15,056 |
| 3. Ceiling on cumulative overall cash deficit of the general government 2/ | 12,703 | 17,579 | 10,773 | Met | 17,629 | 18,681 | 16,571 | Met | 920 | 6,486 | 7,594 | 8,939 | 11,644 | 18,273 | 1,345 | 6,377 |
| 4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/ | 400 | 400 | 0 | Met | 0 | 0 | 0 | Met | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars) | 0 | 0 | 0 | Met | 0 | 0 | 0 | Met | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Indicative Targets 1/* | | | | | | | | | | | | | | | | |
| 1. Ceiling on reserve money | 60,222 | 60,222 | 60,175 | Met | 63,574 | 63,574 | 64,489 | Not met | 62,935 | 66,398 | 66,808 | 70,231 | 70,243 | 75,053 | 74,146 | 77,765 |
| 2. Cumulative floor on state government tax collections 2/ | 42,874 | 42,874 | 45,615 | Met | 64,458 | 64,458 | 63,912 | Not met | 15,055 | 31,412 | 30,919 | 50,340 | 49,599 | 71,886 | 17,263 | 36,054 |
| 3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit (UMB) and Monthly Social Benefit (MSB) programs 2/ | 2,166 | 2,166 | 2,353 | Met | 2,888 | 2,888 | 3,257 | Met | 1,112 | 2,224 | 2,175 | 3,337 | 3,318 | 4,570 | 1,223 | 2,447 |

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

1/ As defined in the TMU.

2/ Cumulative from the beginning of the year.

3/ The continous QPC was missed in February 2013.

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

| Measure | Timing | Macroeconomic Rationale | Status |
|---|---|---|---|
| ***Structural Benchmarks*** | | | |
| **I. FISCAL POLICY** | | | |
| Adopt a government resolution on the procedures for submission of budgets of the next 10 largest SOEs to be approved and monitored by the government. | End-March, 2013 | Reduce fiscal risks stemming from state-owned enterprises and boost revenues from dividends. | Met |
| Create a new, adequately staffed, department on tax policy in the Ministry of Finance. | End-June, 2013 | Develop a sound revenue base by strengthening the tax policy function by ensuring that the Ministry of Finance becomes the focal point on all tax policy-related matters. | New |
| Issue a regulation on expanding the coverage of the commitment register to include local budgets and special means. | End-September, 2013 | Optimize spending by enhancing the treasury's ability to exercise public expenditure control. | New |
| Develop and approve regulations on accounting and financial reporting using the unified chart of accounts on the basis of international norms. | End-December, 2013 | Optimize spending by strengthening the treasury's ability to conduct prudent expenditure management. | New |
| **II. FINANCIAL SECTOR** | | | |
| Complete Zalkar sale | End-December, 2012 | Complete resolution of Zalkar Bank. | Met with delay |
| Revise and issue a cabinet-approved SSC sales strategy that ensures the divestiture of the majority of the bank's shares over the next two years. | End-February, 2013 | Reduce the government's involvement in commercial banking activity. | Met |
| Submit the draft Banking Code (including Law on Banks and Banking Activity, Law on Conservatorship, Liquidation, and Bankruptcy of Banks, Law on NBKR) consistent with Fund TA advice, to (i) strengthen the legal framework for early intervention and resolution of problem banks; (ii) limit the scope of judicial review of actions taken by the NBKR; and (iii) enhance legal protection for NBKR staff and agents. The Banking Code reform will also: (i) establish the NBKR's sole authority to hold and manage official foreign reserves, and (ii) extend the term of engagement of the NBKR external auditors. | | Strengthen bank resolution framework and supervisory independence of the NBKR. This will also ensure the supremacy of the NBKR law over other laws and regulations that might affect the NBKR;<br><br>Strengthen institutional and financial autonomy of the NBKR. | |
| (i) to government | End-April, 2013 | | Met |
| (ii) to parliament | End-September, 2013 | | In progress |
| In line with the Fund's TA advice, submit to the parliament draft amendments to the AML/CFT law and to the relevant provisions of the Criminal Code to strengthen the AML/CFT legal framework. These provisions include the criminalization of money laundering and terrorist financing; identification, tracing, and freezing of terrorist assets; confiscation of funds related to money laundering; and customer due diligence measures for all financial institutions. | End-December, 2012 | Bring the AML/CFT legislation in line with the Financial Action Task Force standard. | Met |

# Attachment I. Revised Technical Memorandum of Understanding

May 20, 2013

## I. Introduction

1. This memorandum defines the quantitative performance criteria, indicative targets and adjustors, and establishes the content and frequency of the data to be provided to IMF staff for program monitoring related to the economic program supported by an arrangement under the Extended Credit Facility (ECF). The indicators presented in Table 1 of the Letter of Intent dated May 20, 2013 reflect the understandings on quantitative performance criteria reached between the authorities of the Kyrgyz Republic and staff of the IMF.

## II. Quantitative Performance Criteria

### A. Definitions and Concepts

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

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

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

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

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

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

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

8. **Concessional and nonconcessional debt.** Concessional debt is defined as debt with a grant element equivalent of 35 percent or more. The grant element of a debt is the difference between the present value (PV) of the debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more). The debt refers also to commitments contracted or guaranteed and for which value has not been received. The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees. The calculation is performed by the authorities and verified by the IMF staff based on the data provided by the authorities.

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

## B. Quantitative Performance Criteria

### Floor on net international reserves of the NBKR in convertible currencies[1]

#### *Definitions*

10. **Net international reserves (NIR) of the NBKR.** The floor on NIR will be calculated as the difference between total international reserve assets and total international reserve liabilities of the NBKR in convertible currencies. Total international reserve assets of the NBKR are defined as the NBKR holdings of monetary gold, holdings of SDRs, reserve position in the IMF, and any holdings of convertible foreign currencies in cash or with foreign banks, and debt instruments

[1] Convertible currencies are defined as currencies that are freely usable for settlements of international transactions.

issued by nonresidents that are liquid. Accrued interest on deposits, loans, and debt securities are included in reserve assets and liabilities, correspondingly. Reserve assets pledged as collateral or otherwise encumbered, capital subscriptions in foreign financial institutions, and illiquid assets of the NBKR are excluded. Also excluded are net forward positions, defined as the difference between the face value of foreign-currency denominated NBKR off-balance sheet claims on nonresidents and foreign currency obligations to both residents and nonresidents. Total international reserve liabilities of the NBKR in convertible currencies are defined as the sum of Kyrgyz Republic's outstanding liabilities to the IMF and other convertible currency liabilities to nonresidents with an original maturity of up to and including one year. NIR is not affected when foreign assets are received by the NBKR through foreign currency swaps with resident financial institutions. Total international reserves and NIR decline with the provision of foreign assets by the NBKR through foreign currency swaps with resident financial institutions.[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$1,819 million on December 31, 2012.

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

***Adjustors***

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

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

***Definitions***

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

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

14. Thus defined, NDA consist of: (a) net claims to the general government from the NBKR; (b) net claims to other depositary corporations by the NBKR; (c) net claims on other financial corporations; and (d) all other net assets of the NBKR (other items net). Thus defined, the stock of NDA amounted to minus KGS 16,271 million on December 31, 2012.

***Adjustors***

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

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

***Definitions***

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

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

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

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

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

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

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

***Adjustors***

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

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

***Definitions***

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

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

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

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

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

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

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

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

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

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

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

## C. Indicative Targets

### Ceiling on reserve money

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

### Cumulative floor on state government tax collections

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

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

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

## III. Reporting Requirements Under the Arrangement

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

### A. The Balance Sheet of the NBKR

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

### B. Monetary Survey

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

31. The NBKR will provide monthly data to the IMF within seven days after the end of the month on the amount of holdings of treasury bills, treasury bonds and other securities issued by the state government, differentiated by the following categories of holders: the NBKR; resident

[3] Any correction or revisions to data previously reported should be clearly indicated and documented along with the reasons for the revision.

banks; resident nonbanks (including separately the social fund and deposit insurance fund); and nonresidents. The information will be provided in both the book (nominal) value and the actual value, where applicable.

### C. International Reserves and Key Financial Indicators

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

### D. External Debt

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

### E. Budgetary and Extra Budgetary Data

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

## F. Balance of Payments Data

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

## G. Other General Economic Information

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

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

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

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

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

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

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

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

| | 2013 1/ | | | 2014 1/ | |
|---|---|---|---|---|---|
| | June | September | December | March | June |
| Program grants | 1.4 | 2.2 | 22.3 | 0.0 | 41.6 |
| Program loans | 26.4 | 39.7 | 66.2 | 10.0 | 40.0 |
| Public investment program loans | 115.0 | 172.9 | 269.0 | 52.6 | 105.2 |
| Amortization of public external debt | 24.5 | 32.6 | 49.4 | 12.6 | 25.2 |
| Interest payments | 16.8 | 30.5 | 35.7 | 9.7 | 19.3 |

1/ Cumulative disbursements since the beginning of the year.

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

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

INTERNATIONAL MONETARY FUND

# KYRGYZ REPUBLIC

May 21, 2013

## STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION AND FOURTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX


Prepared By

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


## CONTENTS

# RELATIONS WITH THE FUND

(As of March 31, 2013)

**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 | 115.78 | 136.64 |

| **Outstanding Purchases and Loans:** | **SDR Million** | **%Quota** |
|---|---|---|
| ESF Arrangements | 33.30 | 37.50 |
| RCF Loans | 22.20 | 25.00 |
| ECF Arrangements | 63.35 | 71.34 |

**Latest Financial Arrangements:**

| Type | Date of Arrangement | Expiration Date | Amount Approved (SDR Million) | Amount Drawn (SDR Million) |
|---|---|---|---|---|
| ECF | Jun 20, 2011 | Jun 19, 2014 | 66.60 | 38.06 |
| ESF | Dec 10, 2008 | Jun 09, 2010 | 66.60 | 33.30 |
| ECF [1/] | Mar 15, 2005 | May 31, 2008 | 17.76 | 17.76 |

[1/] Formerly PRGF.

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

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 |
| Principal | 6.24 | 13.33 | 11.04 | 14.97 | 18.27 |
| Charges/Interest | | | 0.24 | 0.21 | 0.17 |
| **Total** | 6.24 | 13.33 | 11.28 | 15.18 | 18.44 |

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

**Status of HIPC and MDRI Assistance**

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

**Safeguards Assessments**

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

**Exchange Rate Arrangements**

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

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

**Article IV Consultations**

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

**FSAP Participation and ROSC Assessment**

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

**Resident Representative**

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

# RELATIONS WITH THE WORLD BANK GROUP

(As of May 8, 2013)

**World Bank Group strategy:** The Kyrgyz Republic Interim Strategy Note (ISN) for FY12–13 was discussed by the Board in August 2011. The ISN focuses on the country's recovery and stabilization needs, while paving the way for support for long-term development. The need for an interim strategy approach was underscored by the fragile political, social and economic situation in the country and the absence of a medium-term development framework upon which a full IDA strategy could be based. Since then, the country has made important progress towards restoring stability and a joint IDA/IFC Country Partnership Strategy (CPS) covering FY14–17 is expected to be presented to the Board in July 2013. Closely aligned to the new National Sustainable Development Strategy, the CPS will retain its focus on improved governance with three broad areas of engagement: i) public administration and public service delivery; ii) business environment and investment climate; and iii) natural resources and physical infrastructure.

**Budget support and investment lending**

FY13 IDA Program: The FY13 IDA lending envelope envisaged an allocation of US$67.2 million for four operations, out of which three have been approved by the Board. The Additional Financing for Village Investment Project 2 (US$4.2 million) was approved in December 2012, the Education Sector Support Program (US$16.5 million) was approved in March 2013, and the Second Health and Social Protection Project (US$16.5 million) in May 2013. The Board presentation of the First (in a series of two) Programmatic DPO (US$30 million) is currently expected in early FY14. Also in 2013, the World Bank restructured the Financial Sector Development Project (originally approved in March 2012) and its Board approval is expected in May 2013.

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

**Analytical advisory activities**

FY12–13 Analytical Advisory Activities (AAA) program included: programmatic Public Expenditure Review, Kyrgyzstan Conflict Analysis Filter, Gender Assessment, programmatic Poverty Studies, Preparation of a New Statistical Master Plan (SMP–2) and Information Matters–Transparency and Accountability GPF grant. In addition, the World Bank has been providing technical assistance to the mining sector and in developing a Public Sector Reform Roadmap and recently launched a Private Sector Strategy Development activity.

**Trust funds**

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

**IFC program and portfolio**

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

**IFC strategy and program:**

- Increase access to finance for MSMEs by strengthening local financial institutions and providing credit lines for MSME financing to local banks and expanding microfinance institutions.

- Develop institutional capacity and support capacity building of financial institutions (including leasing and insurance, if there are opportunities) and microfinance companies and improve corporate governance in local enterprises.

- Increase private sector participation in infrastructure through selective advisory and investment climate engagement.

- Assist the agribusiness sector directly and through MSMEs finance to banks and microfinance companies.

- Support the improvement of business environment and investment climate.

Since becoming a member of IFC in 1993, the Kyrgyz Republic has received commitments totaling more than US$120 million from IFC's own funds to finance more than 35 projects in the financial, banking and microfinance, oil, gas and mining sector, agribusiness, pulp, and paper sectors. New commitments in 2012 amounted to US$10.7 million for investments in three projects representing banking, microfinance, and infrastructure sectors. As of March 31, 2013, IFC's committed portfolio was US$28 million, which includes investments in eight companies, representing banking, microfinance, real and infrastructure sectors.

IFC will continue its advisory services work in the financial sector, developing corporate governance and improving the business environment. The Azerbaijan-Central Asia Financial Infrastructure Project will help improve regulatory framework for credit bureaus, collateral registries and consumer protection, enhance the system of credit reporting and build capacity of financial intermediaries in the area of risk-management, credit underwriting and secured lending. IFC's new Investment Climate Project is designed to help reduce the gap between enactment of reforms and their implementation, simplify business inspections and improve the investment climate for agribusiness. The agribusiness component of this project is designed to support development of Food Safety Framework and harmonization of agribusiness regulation with WTO standards, which is aimed at enhancing export potential of agriculture produce and improving income opportunities for the Kyrgyz farmers. Implementation of this component will be supported by IFC's regional Food Safety Program. IFC's recently launched Central Asia Tax Project, focuses on tax administration reform, and seeks to further improve risk-based approaches to tax inspections, simplify tax reporting, and VAT administration. Under the second phase of Central Asia Corporate Governance Project (CACGP II) IFC will continue efforts to help build sustainable local businesses through improving the corporate governance of enterprises and banks and, at the policy level, strengthening the regulatory framework. IFC Transformation for Microfinance Institutions (MFIs) Project will continue to support the strengthening of MFIs' institutional capacity, help them transform into deposit-taking institutions or banks and extend their outreach, especially to rural populations. The recently launched Housing Microfinance Advisory Project seeks to improve the housing conditions of low-income groups by introducing new home improvement loan products to local MFIs. Regarding investment activities, IFC will continue working with existing clients, predominantly MFIs, focusing on: their lending to MSMEs through credit lines; their risk management practices through advisory services and specific lending products; and their provision of short-term trade finance. Aiming to advance energy efficiency and renewable energy agenda, IFC will establish Regional Renewable Energy Advisory Program, which can be utilized in the Kyrgyz Republic. The program will be designed to help the governments improve regulatory framework for renewables, and support IFC and non-IFC projects through provision of sectoral expertise, market assessments, product design and financial structuring.

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

MIGA's current portfolio in the Kyrgyz Republic consists of guarantees for two projects in the transport sector: an airline (Kyrgyz Airlines); and an airport services company (Manas Management Company). The projects are owned by Austrian and Italian investors. The combined gross exposure from these projects is US$14.8 million. Both of these projects were the subject of disputes between the investors and the government during the last four years. The settlement between the Kyrgyz government and investors, which was worked out in May of 2008 with MIGA's mediating role, has now been fully implemented by both sides. This finally resolves this matter that had been pending for more than four years. In August 2009 MIGA's guarantee holders withdrew their claim against MIGA and released MIGA from any liability. In addition, they have dismissed their claims against the government, which had been pending in the London Court of International Arbitration. There were no new MIGA projects in the Kyrgyz Republic in FY12 and FY13.

**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. In April 2013, a Canadian company initiated arbitration proceedings related to a mining concession.

# RELATIONS WITH THE ASIAN DEVELOPMENT BANK (ADB)

(As of March 31, 2013)

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

A new country partnership strategy (CPS) 2013–17 is being prepared. The government and ADB have agreed to the overall CPS 2013–17 framework, which supports the National Sustainable Development Strategy (NSDS) 2013–17. The CPS is expected to be finalized in August 2013. ADB's Strategy 2020 and NSDS share a common goal of inclusive growth.

The overarching goal of the CPS 2013–17 will be inclusive economic growth. The CPS will support the government in addressing key constraints to economic growth, and overcome uneven access to economic opportunities to ensure that this growth includes the poor and disadvantaged groups. The CPS will focus on the following priority sectors: (i) public sector management for better investment climate, including access to finance; (ii) transport and logistics; (iii) energy; (iv) education and training; and (v) water supply and sanitation (WSS). ADB has been active in these areas for some time but will focus more strongly, within each sector, on addressing regional disparities.

ADB's Country Operations Business Plan (COBP) for 2012–13 was approved in December 2012. The country operations business plan, 2012–13 has been developed during the transition of both the government strategies and the CPS. COBP 2014–16 are being discussed with the government, and will support the priority sectors of the CPS 2013–17.

ADB is one of the major development partners in the country. All assistance provided to the Kyrgyz Republic is from concessional ADB's special fund resources—Asian Development Fund (ADF). The Kyrgyz Republic has been eligible for ADF grant and loan since 2009. ADB's annual lending began with US$40 million in 1994 and reached the peak level of US$167.8 million in 2010. Based on the results of the 2012 country performance assessment (CPA), the Kyrgyz Republic received an ADF allocation of US$121.4 million for 2013–14, comprising US$53.9 million in grants and US$67.5 million in loans. The indicative ADF resource allocation for 2015–16 is tentatively equal to the allocations of 2013–14, which will be confirmed by the CPAs 2013 and 2014. The country may receive additional ADF resources for the projects of regional importance.

As of 31 March 2013, the country has received 35 loans worth US$820.4 million, 18 ADF and one GEF grants worth US$323.3 million. The Kyrgyz Republic has also received eight grants from Japan Fund for Poverty Reduction (JFPR grants) amounting to US$8.5 million. ADB is the largest funding agency in the transport and education sectors.

The active ADB portfolio of 11 projects (total size of US$451.8 million) contained nine ADF loans (total size of US$216.9 million) and 11 ADF grants (total size of US$254.9 million).

ADB has also provided 81 technical assistance (TA) projects amounting to US$45.8 million as of today. ADB also provides TA through the regional technical assistance facility. Among the most recent assistance is technical assistance for developing an e-procurement strategy for the Kyrgyz Republic.

The performance of ADB's portfolio is partially satisfactory. Contract awards and disbursements as of 31 March 2013 reached US$0.4 million and US$4.9 million (0.6 percent and 10.2 percent of year's projections), respectively. The Kyrgyz portfolio has one project with actual problems and two projects with potential problems. The two projects are potential problem projects due to delays in implementation and disbursements, and one project is an actual problem due to delays in the project start-up. The Community-Based Infrastructure Services Sector Project was suspended on June 11, 2012 due to poor project management and integrity issues.

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

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

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

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

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

(As of May 1, 2013)

**Overview of EBRD activities to date**

The Bank has been actively supporting the transition in Kyrgyz Republic since 1995. From 1995 to the end of April 2013, the Bank signed 95 projects accounting for a net cumulative business volume of €419 million. Investment portfolio stood at €190 million represented by 44 active operations. The current private sector portfolio ratio (as a percentage of the total portfolio) is 75 percent which is well above the Bank's 60 percent mandated ratio. The last country strategy for the Kyrgyz Republic was approved by EBRD's Board in September 2011, and was designed to ensure continued EBRD support for the recovery of the country's economy and sustainable growth after a period of social and political unrest in the recent past. The EBRD's key priorities under the last country strategy remain valid and include supporting local private enterprises, in particular through support for micro, small, and medium sized enterprises (MSMEs), alongside support to strengthen the financial sector and develop critical infrastructure.

**Fostering the private sector:** The Bank's operations in support of local private enterprises took advantage of the ETC Initiative, which was instrumental in enabling the Bank to deliver a number of small projects with significant transition impact, particularly in the areas of corporate governance and business conduct.

- In 2012 EBRD signed six corporate sector projects. These include an MCFF loan to a local producer and exporter of dried fruits and soft drinks to purchase new production equipment and build storage facility; a loan to finance complementary facilities in one of the best office buildings in the capital; a DLF to complete construction and fit-out of a new mid-market hotel and an MCFF to support expansion of an existing hotel in Bishkek to improve supply of good quality accommodation; an MCFF loan to the largest distributor and processor of seafood in the country which is expected to improve operational efficiency and quality of the products through utilization of higher energy efficient equipment and modernization of storage facilities.

- The mining sector remains a major contributor to economic growth, export receipts and fiscal revenues. In 2012 the Bank supported the activities of Kumtor mine by disbursing US$76 million to finance further investments in its mining operations.

- Under operations of its Small Business Support team, the Bank facilitates the skills transfers to the local consultancy industry and improves the know-how and management of the MSME sector through its two twin programs: Enterprise Growth Programme (EGP) and Business Advisory Services (BAS). The objective of the EGP is to assist MSMEs to operate successfully and help to develop new business skills at the senior management level in order to be able to compete in a market economy. The EGP introduces industry-specific management expertise by providing the advisory services of experienced senior executives from economically developed countries. These advisers transfer management and technical know-how to enterprises, sharing their commercial experience directly with the CEOs and senior managers of local companies.

- On the other hand EBRD BAS Kyrgyz Republic enables MSMEs to access a diverse range of consulting services by facilitating projects with local consultants on a cost sharing basis. Direct assistance to enhance enterprise performance is combined with systemic market development activities to create sustainable and commercially viable infrastructures of MSME support in the Bank's countries of operations. As of the end of 2012 BAS Kyrgyz Republic had undertaken more than 500 projects engaging 205 consultants. Sixty percent of the enterprises assisted are located in rural areas outside the main cities. Despite the difficult business climate, turnover increased in nearly 66 percent of BAS beneficiary companies in the year following project completion, while 14 percent of beneficiaries secured external investments with an average size of €530,000. BAS also supports professional capacity building of local advisory services to serve the MSME sector on a sustainable basis and introduced more sophisticated advisory services in areas such as quality management and energy efficiency. BAS Kyrgyz Republic is funded by the Swiss government.

**Strengthening financial institutions:** In 2012, the EBRD continued supporting the country's financial institutions. The Bank signed four new loan agreements with local banks and MFIs in local currency. These included a loan to Bai Tushum and Partners, a long-standing partner—the first micro-finance company in the region—which successfully transformed itself into a bank, with a positive impact on competitive environment in the banking sector.

In 2012 the Bank approved the new US$20 million Kyrgyz Sustainable Energy Efficiency Facility (KyrSEEF) which will provide financing for small-size energy efficiency improvements in the residential, service, agribusiness, SME, and industry sectors and will be an example of an integrated approach combining policy dialogue, financing and TC-supported capacity building at local intermediaries, and benefiting from donor-funded investment incentives. The Bank has been actively engaged in policy dialogue on stabilizing the banking sector, strengthening deposit insurance, enhancing the regulation of the microfinance sector and continued providing Technical Consultation (TC) to its partner financial institutions under the Kyrgyz Financial Sector Framework.

Building on the Memorandum of Understanding signed in the context of the local currency financing program, the Bank commenced work on developing the corporate bond market using a combination of TC and investments supporting the issuance of local currency corporate bonds by a leading bank. Technical cooperation projects with the Central Bank and the securities market regulator aim at improving corporate bond market issuance and disclosure standards and strengthening the regulatory framework for bond issuance and trading.

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

- Under this framework in May 2011, the Bank signed new water/wastewater projects for Osh and Jalalabad municipalities. The EBRD's €6 million loan to the projects is cofinanced by a capital expenditure grant from SECO (Switzerland). In August 2012 the Bank signed water project for Kara-Balta having provided a sovereign loan of €2 million cofinanced by a capital grant of €3 million from the EBRD Shareholder Special Fund. The capital expenditure grant is required to meet IMF conditions for nonconcessional lending and mitigate affordability constraints. Projects in the water sector enabled the Bank to make progress with water tariff reforms, meeting IFRS accounting standards, and promoting efficiency in the Bishkek water company.

- In order to support the transport infrastructure of Bishkek city the Bank provided a sovereign loan of up to €7.7 million cofinanced by a capital grant from the EBRD Shareholders' Special Fund of €4.2 million to finance the purchase of new trolleybuses and partial rehabilitation of related infrastructure. In addition, this investment will provide support for the introduction of electronic ticketing in the municipally operated public transport sector in Bishkek.

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

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

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

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

- The Bank has offered TC to support the government's efforts to improve public procurement under the joint EBRD-UNCITRAL technical cooperation project designed to upgrade public procurement regulation in the CIS to the new UNCITRAL Model Law on Procurement of Goods, Construction, and Services.

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

- The Bank has been providing TC to the Deposit Insurance Agency and intends to continue assisting the Agency to improve IT, increase operating procedures effectiveness, strengthening monitoring and risk management.

# TECHNICAL ASSISTANCE PROVIDED BY THE FUND

(February 2003–April 2013)

| 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, State Customs Service |
| | Reviewing Progress on COA Work | July 4–7, 2011 | Ministry of Finance |
| | Public Financial Management | August 17–30, 2011 | Ministry of Finance |

| | | | |
|---|---|---|---|
| | Tax Administration Diagnostic Mission (TPA TTF Module 6) | September 16–29, 2011 | Ministry of Finance, State Tax Service, State Customs Service |
| | Unified Chart of Accounts | November 3–11, 2011 | Ministry of Finance |
| | Public Finance Management | December 8–13, 2011 | Ministry of Finance |
| | Tax Administration Reform | February 27–March 17, 2012 | State Tax Service |
| | Tax Administration Enforcement (Module 6—TPA TTF) | September 14–24, 2012 | Ministry of Finance, State Tax Service, State Customs Service |
| | Public Finance Management | September 27–October 3, 2012 | Ministry of Finance |
| | 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, 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, State Customs Service |
| 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 | December 7–18, 2004 | National Bank of the Kyrgyz Republic |

| | | |
|---|---|---|
| Amendments to the NBKR Law | | |
| Payments System | January 25–February 7, 2005<br><br>April 12–25, 2005<br><br>October 18–27, 2005<br><br>February 20–March 5, 2006<br><br>October 16–27, 2006,<br>March 3–17, 2007<br><br>December 9–15, 2007<br><br>May 19–June 3, 2008<br>February 23–March 11, 2009<br>September 22–October 9, 2009 | National Bank of the Kyrgyz Republic |
| Bank Supervision and Regulation | February 23–March 8, 2005<br>May 18–28, 2005<br>July 17–28, 2005<br>October 02–13, 2005<br><br>January 15–26, 2006<br><br>February 12–23, 2006<br>March 20–30, 2006 | National Bank of the Kyrgyz Republic |
| FSAP update | September 5–15, 2005<br><br>October 10–23, 2006 | National Bank of the Kyrgyz Republic |
| AML/CFT | April 19–25, 2006 | National Bank of the Kyrgyz Republic |
| Monetary Framework, Operations, and Liquidity Management | June 25–July 15, 2007 | National Bank of the Kyrgyz Republic |

| | | |
|---|---|---|
| Islamic Banking Framework | February 4–12, 2008 | National Bank of the Kyrgyz Republic |
| Assessment of the Government Primary and Secondary Market Arrangements in the Kyrgyz Republic | May 6–16, 2008 | National Bank of the Kyrgyz Republic |
| Public Debt Management | July 14–31, 2009 | Ministry of Finance and others |
| Risk Management within the Islamic Banking Framework | July 6–15, 2009 | National Bank of the Kyrgyz Republic |
| 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 |

| | | | |
|---|---|---|---|
| LEG | Update of the AML/CFT Legislation (jointly with MFD) | February 5–11, 2004 | National Bank of the Kyrgyz Republic |
| | Review of Bank Legislation | March 1–4, 2004<br><br>April 26–May 6, 2004 | National Bank of the Kyrgyz Republic |
| | Review of Tax Legislation | July 27–August 5, 2004 | Ministry of Finance |
| | Assisting in drafting Tax Code | December 4–10, 2005 | Prime Minister's Office |
| | AML/CFT Follow-up | July 2–6, 2007 | National Bank of the Kyrgyz Republic |
| | AML/CFT Follow-up | September 3–6, 2007 | National Bank of the Kyrgyz Republic and State Financial Intelligence Service |
| | AML/CFT Framework | February 11–15, 2008<br>March 3–7, 2008 | National Bank of the Kyrgyz Republic and State Financial Intelligence Service |
| | Review of the Draft Tax Code | April 22–30, 2008 | Ministry of Finance |
| | AML/CFT capacity building | March 25–31, 2009 | National Bank of the Kyrgyz Republic and State Financial Intelligence Service |
| | AML/CFT Follow-up | May 18–29, 2009 | NBKR and State Financial Intelligence Service |
| | AML/CFT Follow-up | August 3–14, 2009 | NBKR and State Financial Intelligence Service |

| | | |
|---|---|---|
| AML/CFT follow-up | September 22–25, 2009 | State Financial Intelligence Service |
| AML/CFT Follow-up | October 5–16, 2009 | NBKR, State Financial Intelligence Service |
| AML/CFT Follow-up | January 27–29, 2010 | State Financial Intelligence Service |
| AML/CFT Follow-up | February 22–March 4, 2010 | NBKR, State Financial Intelligence Service |
| AML/CFT Follow-up | January 18–20, 2011 | NBKR, State Financial Intelligence Service |
| Legal Framework for Crisis Management and Bank Resolution | March 9–23, 2011 | NBKR, MoF, Deposit Protection Agency, Debt Enterprise Bank Resolution Agency, Ministry of Foreign Affairs, Union of Banks |
| Legal Frameworks for Bank Resolution | September 6–16, 2011 | NBKR, Debt Enterprise Bank Resolution Agency |
| AML/CFT Follow-up | October 17–21, 2011 | NBKR, State Financial Intelligence Service, Public Prosecutor |
| Legal Frameworks for Bank Resolution and Central Banking | March 5–15, 2012 | NBKR |

| | | | |
|---|---|---|---|
| | AML/CFT Follow-up | November | NBKR, State Financial Intelligence Service, Public Prosecutor |
| | Legal Frameworks for Bank Resolution and Central Banking | December 11–20, 2012 | NBKR |
| | AML/CFT Follow-up | March | NBKR, State Financial Intelligence Service, 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 , National Bank of the Kyrgyz Republic |
| | Price Statistics | February 18–March 1, 2013 | National Statistics Committee |

**List of Resident Advisors**

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

# STATISTICAL ISSUES

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

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

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

**National accounts**

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

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

**Price and labor market statistics**

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

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

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

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

**Government finance statistics**

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

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

**Monetary and financial statistics (MFS)**

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

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

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

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

**External sector statistics**

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

# Table of Common Indicators Required for Surveillance
## (As of April 25, 2013)

| | Date of latest observation | Date received | Frequency of data[7] | Frequency of reporting[7] | Frequency of publication[7] | Memo Items: | |
|---|---|---|---|---|---|---|---|
| | | | | | | Data Quality Methodological Soundness[8] | Data Quality Accuracy and Reliability[9] |
| Exchange Rates | 5/7/13 | 5/8/13 | D | D | W | | |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1] | 3/31/13 | 3/31/13 | M | M | M | | |
| Reserve/Base Money | 5/7/13 | 5/8/13 | D | D | M | LO, O, LO, LO | LO, O, O, LO, LO |
| Broad Money | 3/31/13 | 4/20/13 | M | M | M | | |
| Central Bank Balance Sheet | 5/7/13 | 5/8/13 | D | D | M | | |
| Consolidated Balance Sheet of the Banking System | 3/31/13 | 4/20/13 | M | M | M | | |
| Interest Rates[2] | 3/31/13 | 5/2/13 | W | W | W | | |
| Consumer Price Index | 3/31/13 | 4/8/13 | M | M | M | O, LO, O, O | LO, LO, O, O, O |
| Revenue, Expenditure, Balance, and Composition of Financing,[3] General Government[4] | 12/31/12 | 1/31/13 | M | M | A | O, LNO, LO, O | LO, O, O, LO, LO |
| Revenue, Expenditure, Balance, and Composition of Financing,[3] Central Government | 12/31/12 | 1/31/13 | M | M | M | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Stocks of Central Government and Central Government-Guaranteed Debt[5] | 12/31/12 | 2/28/13 | Q | Q | Q | | |
| External Current Account Balance | 12/31/12 | 3/31/13 | Q | Q | Q | LO, LO, LO, LO | O, LO, LO, LO, LO |
| Exports and Imports of Goods and Services | 12/31/12 | 3/31/13 | Q | Q | Q | | |
| GDP/GNP | 3/31/13 | 4/9/13 | M | M | M | O, O, LO, O | LO, LO, LO, O, O |
| Gross External Debt | 12/31/12 | 3/31/13 | Q | Q | A | | |
| International Investment Position[6] | 12/31/12 | 3/31/13 | 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.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 13/68
FOR IMMEDIATE RELEASE
June 18, 2013

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

# IMF Executive Board Concludes 2013 Article IV Consultation with Kyrgyz Republic

On June 10, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Kyrgyz Republic.[1]

**Background**

The economy contracted in 2012 because of disruptions in gold production. Strong non-gold growth, fueled by remittances inflows, cushioned the drop in overall output to -0.9 percent. The current account deficit increased substantially, mainly owing to the decline in gold exports and an increase in imports of inputs for ongoing energy infrastructure projects. Official assistance and remittances, which have the strongest impact on the exchange rate, mitigated depreciation pressures. Therefore, the som depreciated by less than 2 percent against the U.S. dollar during 2012. Inflation increased to 7.5 percent by end-2012, owing to rising international food prices in the summer. The recovery in the gold sector along with continued strong performance in the other sectors is expected to boost growth to 7.4 percent in 2013. Inflation should settle at around 7 percent.

Notwithstanding adverse economic conditions, fiscal policy remained prudent. The 2012 fiscal deficit was 5.4 percent of GDP, below the targeted deficit of 6 percent of GDP, but slightly higher than in 2011 because of expenditure carryover. The revenue-smoothing arrangement with the Kumtor gold company and buoyant customs

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

revenue in the first nine months of 2012 offset the shortfall in gold-related revenue. The government also curtailed nonpriority expenditure to accommodate lower-than-budgeted external financing.

The National Bank of Kyrgyz Republic (NBKR) reduced the policy rate in several steps to 2.6 percent, in response to negative economic growth and moderate inflation. However, sterilization efforts were not sufficient to contain reserve money growth. The banking sector remained generally stable. Nonperforming loans continued to decline while provisioning increased. Capital adequacy remained high at 18 percent. While credit growth has been strong, credit remains low at 13 percent of GDP.

The authorities continued to pursue structural and governance reforms. Progress has been made in public financial management, including public procurement, and financial sector reform. The government has also adopted a medium-term energy sector strategy in 2012 in order to improve transparency, accountability and sustainability of the energy sector.

The medium-term outlook is broadly favorable. The Kyrgyz economy is expected to grow by 5 percent in the medium term and inflation is expected to gradually decline to 5 percent. Fiscal consolidation is expected to continue with the deficit declining to 2½ percent of GDP by 2015. The current account deficit is projected to improve, reaching 3 percent of GDP in 2018, while reserves are expected to increase to 4.2 months of imports. Risks mostly emanate from exogenous shocks via increased commodity prices and a slowdown in global growth that could spill over to the Kyrgyz economy through the trade and remittances channel.

**Executive Board Assessment**

Executive Directors welcomed the progress under the Extended Credit Facility-supported program, including adherence to the fiscal targets despite political uncertainty and a temporary slowdown in growth. Given remaining downside risks to the outlook, Directors encouraged steadfast implementation of reforms to consolidate the fiscal gains, strengthen the financial system, and enhance the business climate with a view to diversifying the economy.

Directors welcomed the authorities' commitment to continued fiscal consolidation to ensure sustainability, rebuild policy buffers, reduce dependence on external assistance, and keep debt on a declining path. Restraining and rationalizing non-priority expenditures and the wage bill will be important to create space for higher social and infrastructure spending. These steps should be complemented by measures to broaden the tax base through tax policy and administration reforms. Directors also called for further progress on fiscal institutional reforms, including in public financial management. They urged strict monitoring of borrowing by state enterprises.

Directors supported the authorities' tight monetary policy stance in view of underlying inflationary pressures. They stressed the need to revise the monetary policy framework to enhance monetary policy transmission, and to strengthen the independence of the central bank to ensure sound monetary and financial policies. Continued exchange rate flexibility should help absorb external shocks.

Directors welcomed progress toward strengthening the financial sector. Following the resolution of Zalkar Bank, it will now be important to ensure its full compliance with capital requirements. Directors looked forward to timely enactment of the draft banking code with all its key features, particularly those aimed at further enhancing the central bank's autonomy and governance. Directors welcomed the enactment of amendments to the Criminal Code and urged the authorities to swiftly implement the changes to the Anti-Money Laundering/Combating the Financing of Terrorism payment system laws.

Directors encouraged the authorities to diversify the economy and increase its resilience. They stressed the need to improve the business climate and institutions and enhance governance, including in the energy sector. Directors underscored the importance of evenhanded and consistent application of business laws to lay the foundation for strong private-sector-led growth. They looked forward to a constructive resolution of the Kumtor gold mine dispute.

***Public Information Notices (PINs)*** form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

## Kyrgyz Republic: Selected Economic Indicators, 2010–13

| | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| | Act. | Act. | Act. | Proj. |
| Real GDP (growth in percent) | -0.5 | 6.0 | -0.9 | 7.4 |
| Nongold real GDP (growth in percent) | -2.1 | 5.6 | 5.0 | 4.5 |
| Consumer prices (12-month percent change, eop) | 18.9 | 5.7 | 7.5 | 7.0 |
| Consumer prices (12-month percent change, average) | 7.8 | 16.6 | 2.8 | 8.6 |
| General government finances (in percent of GDP) 1/ | | | | |
| Total revenue and grants | 30.5 | 31.8 | 34.5 | 32.0 |
| *Of which:* Tax revenue | 22.3 | 23.1 | 26.0 | 25.4 |
| Total expenditure (including net lending) | 36.6 | 36.3 | 39.8 | 37.2 |
| *Of which*: Current expenditure | 31.0 | 30.9 | 32.4 | 30.8 |
| Capital expenditure | 5.4 | 5.5 | 7.8 | 6.4 |
| Overall fiscal balance | -6.3 | -4.6 | -5.4 | -5.3 |
| Primary balance excluding grants | -8.2 | -6.6 | -7.1 | -5.7 |
| Banking sector | | | | |
| Reserve money (percent change, eop) | 18.4 | 12.8 | 17.7 | 16.4 |
| Broad money (percent change, eop) | 21.1 | 14.9 | 23.8 | 19.8 |
| Credit to private sector (percent change, eop) | 6.3 | 20.8 | 26.2 | 21.0 |
| Credit to private sector (in percent of GDP) | 12.5 | 11.7 | 13.8 | 14.6 |
| External sector | | | | |
| Current account balance (in percent of GDP) | -6.4 | -6.5 | -15.3 | -8.0 |
| Export growth (percent change) | -1.1 | 34.1 | 4.4 | 12.9 |
| Import growth (percent change) | 6.0 | 30.2 | 26.5 | -0.1 |
| Gross International reserves (in millions of U.S. dollars) | 1,716 | 1,831 | 2,061 | 2,160 |
| Gross reserves (months of next year imports, eop) | 4.0 | 3.4 | 3.8 | 3.8 |
| External public debt outstanding (in percent of GDP) | 55.1 | 45.9 | 45.8 | 45.2 |

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

1/ General government comprises State Government, Social Fund and Development Fund (starting from September 2009) finances. State government comprises central and local governments.

Press Release No. 13/207
FOR IMMEDIATE RELEASE
June 10, 2013

International Monetary Fund
Washington, D.C. 20431 USA

**IMF Completes Fourth Review Under an ECF Arrangement with the Kyrgyz Republic, Approves US$14.4 Million Disbursement, and Completes Article IV Consultation**

The Executive Board of the International Monetary Fund (IMF) today completed the fourth review of Kyrgyz Republic's economic performance under the program supported by a three-year, SDR 66.6 million (about US$100.8 million) Extended Credit Facility arrangement that was approved by the IMF's Executive Board on June 20, 2011 (see Press Release No. 11/245). The Executive Board's decision enables the immediate disbursement of an amount equivalent to SDR 9.5 million (about US$14.4 million) to the Kyrgyz Republic. This would bring total disbursements under the arrangement to SDR 47.57 million (about US$72 million).

In completing the review, the Board approved the authorities' request for a waiver of nonobservance of the continuous quantitative performance criteria on contracting or guaranteeing of new nonconcessional external debt by the public sector. The request for the waiver was approved based on the corrective actions taken by the authorities.

The Executive Board also concluded the 2013 Article IV Consultation with the Republic of Kyrgyzstan. Under the Article IV of its Articles of Agreement, the IMF has a mandate to exercise surveillance over the economic, financial, and exchange rate policies of its members in order to ensure the effective operation of the international monetary system. A Public Information Notice on the Board's assessment of the Consultation will be released separately.

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

"The Kyrgyz authorities have made good progress under their ECF-supported program. The fiscal targets were met despite a temporary slowdown in growth. The economy is recovering, and the medium-term outlook is favorable. Steadfast implementation of the program will be important to consolidate the gains and guard against downside risks.

“Fiscal consolidation is a priority in the medium term to reduce vulnerabilities, rebuild policy buffers, and ensure sustainability. The authorities’ consolidation plans appropriately focus on restraining current spending while preserving social and capital outlays. Reforms in tax policy and administration and public financial management should continue.

“Maintaining a tight monetary policy stance is necessary to mitigate underlying inflationary pressures. Stronger de facto independence will help the central bank to maintain low inflation.

“Creating a well-functioning financial sector is key to supporting private sector-led growth. The new banking code, once approved, will help restore confidence in the banking system. The resolution of Zalkar Bank was an important step, and its operations will need to be closely supervised to ensure compliance with prudential standards.

“Diversification of the economy will help reduce volatility in growth stemming from disruptions in gold production. Good governance and sound institutions remain critical to create a level playing field, improve investor confidence, and lay the foundation for strong private sector-led growth.”

**Statement by René Weber, Executive Director for the Kyrgyz Republic And Jerome Duperrut, Advisor to Executive Director June 10, 2013**

On behalf of our Kyrgyz authorities, we thank staff for the constructive surveillance policy discussions in the context of the Article IV Consultation, the insightful staff reports, and the continued support under the Extended Credit Facility (ECF) arrangement. The authorities remain committed to strengthening the foundations for growth and development: maintaining macro-economic stability, improving institutions and governance, promoting national reconciliation, and strengthening regional cooperation. The essential contribution of the Fund in all three dimensions of its activities—surveillance, lending, and capacity development—is acknowledged and highly appreciated. The ECF will continue to provide a solid anchor for economic policies going forward. The positive traction of Fund's advice is clearly shown in Box 1.

**Macro-economic outlook and policies**

After a difficult 2012, when economic growth was negative as a result of a temporary large contraction in gold production due to adverse geological factors, the outlook for 2013 is more reassuring. Gold production has recovered and non-gold growth continues to show strength. Capital investment activity, partly linked to the reconstruction efforts in the South of the country, retail trade, and exports are significant contributors. Over the first four months of the year, GDP grew by 8.2 percent, which puts the Kyrgyz Republic on track to meet staff's forecast for 2013. The authorities are confident that the Kyrgyz Republic will be able to grow at a similar, swift pace over the medium-term. At the same time, we concur with staff that risks exist, with fluctuations in the gold production and price, and an economic slowdown in the main partner countries being the most pronounced ones. The Kyrgyz authorities are committed to negotiating in a responsible manner with its foreign investor on the financial, environmental, and social aspects of the Kumtor mine in order to find a lasting and mutually beneficial agreement. They are keenly aware that a stable and predictable business climate is key to attracting investment and generating sustainable and inclusive growth. The Kyrgyz Republic has also started preparations to join the customs union of Belarus, Kazakhstan, and Russia, which should further open export markets as well as improve the economy's competitiveness and investment environment. Russia's recent accession to the World Trade Organization (WTO) and Kazakhstan's proceeding WTO accession process strengthen the case for joining the regional customs union.

Major progress in enhancing the stability of the domestic banking system has been made with the sale of 90 percent of shares of Zalkar Bank to Russia's Investment and Trade Business Holding, which was a precondition for the completion of this review. The authorities expect that the recapitalization of this bank will be completed by the end of the year. Furthermore, with the support of the Fund's technical assistance, they are making good progress in revising the Banking Code. This Code is expected to be submitted to Parliament for approval in September. The authorities are looking forward to the upcoming FSAP mission in July, based on which they expect to deepen the domestic debt market and further strengthen the financial sector.

With an unanticipated decline in gold-related fiscal revenue and public spending approaching 40 percent of GDP, major corrective action was needed by the authorities in the second half of 2012 to meet the overall fiscal deficit target under the ECF arrangement. This adjustment effort included significant cuts in spending on goods, services, and infrastructure, while pro-poor spending was protected. The authorities note staff's assessment that the Kyrgyz Republic compares favorably with others in terms of tax collection, including among countries in the region. The ministry of finance has recently regained the overall responsibility of all fiscal policy matters, as the tax policy unit was transferred back from the ministry of economy. Going forward, the authorities are committed to further consolidate the fiscal position, in line with program objectives. They expect tax revenues to level off in part following tax policy changes, such as the reduction of some fee-based services, but they are confident that the tax intake will benefit from further improvements in tax administration. On the expenditure side, the civil service reform should result in a lower overall wage bill, while leaving some room to allow for targeted wage increases. A new law on public procurement should allow for curbs on public goods and services spending. Combined with reductions in transfers and subsidies, these savings should create some fiscal space for increased education, health, and social assistance outlays. The authorities plan to reform the pension system with a view to make it more equitable, efficient, and sustainable. Based on this fiscal policy strategy, the ratio of public debt to GDP should continue its downward path over the coming years. The authorities will update their medium-term debt management strategy accordingly.

The National Bank of the Kyrgyz Republic (NBKR) is committed to keeping monetary policy tight in order to ensure that inflation remains in single digits. Further monetary policy tightening could be considered to prevent second-round effects from rising food and fuel prices. The NBKR appreciates the staff's thorough discussion of the determinants of monetary policy transmission mechanism, as well as the helpful Fund technical assistance. The NBKR has indicated that it will review the effectiveness of its current monetary targeting framework and its signaling instruments and that is sees merit in further improving its communication to the markets. The authorities agree with the staff's assessment that the exchange rate is broadly in line with fundamentals and that the current level of reserves is adequate. They continue to value the flexible exchange rate regime, with the NBKR refraining from intervening in the foreign exchange market, except in cases of excessive volatility.

The Kyrgyz authorities are committed to improve on past laxity in combating money laundering and the financing of terrorism (AML/CFT). In October 2011, they made a high-level political commitment to work with the Financial Action Task Force (FATF) and Eurasia Group (EAG) to address strategic AML/CFT deficiencies. Since then, they have taken steps towards improving the AML/CFT regime along the lines of the action plan, including through amendments to the Criminal Code and to the Law on Combating Terrorism, which were adopted by Parliament at end-April and signed by President in late May. Concerning the proposed law on Criminal Liability of Legal Persons and Entities, it should be submitted to Parliament as soon as possible. The authorities trust that these reforms will ensure that the Kyrgyz Republic remains on the list of jurisdictions under monitoring at the upcoming FATF plenary meeting. Furthermore, the Kyrgyz authorities expect that their cooperation with the World Bank/UNODC Stolen Asset Recovery Initiative (StAR) will yield positive results.

**Program performance**

The ECF-supported program remains on track as all performance criteria were met, except the one on the ceiling of contracting new nonconcessional external debt. This was due to one of the state-owned enterprise (SOE) signing a nonconcessional credit line. The authorities are taking remedial action by issuing a resolution requiring the main SOEs to provide all information on their borrowing plans and debt service obligations to the ministry of finance. This early reporting requirement should be effective in preventing the contracting of new nonconcessional loans. The Kyrgyz authorities kindly ask the Board to approve this fourth review under the ECF-supported arrangement, and the Waiver of Nonobservance of the above-mentioned performance criterion, with the related disbursement to be directed to the budget. Furthermore and due to the improved economic performance, the authorities ask for modifications to the end-June 2013 quantitative performance criteria on net international reserves and the general government overall deficit. The existing and proposed structural benchmarks targeting fiscal policy and the financial sector well complement the program's quantitative conditionality.