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KYRGYZ REPUBLIC

June 2017

THIRD REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT

In the context of the Third Review under the Three Year Arrangement under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its December 14, 2016 consideration of the staff report on issues related to the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 14, 2016, following discussions that ended on September 28, 2016, with the officials of the Kyrgyz Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 5, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA.)

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

Letter of Intent sent to the IMF by the authorities of the Kyrgyz Republic*
Memorandum of Economic and Financial Policies by the authorities of the Kyrgyz Republic*
Technical Memorandum of Understanding*
*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 16/559
FOR IMMEDIATE RELEASE
December 14, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes the Third Review Under the Extended Credit Facility Arrangement for the Kyrgyz Republic

On December 14, 2016, the Executive Board of the International Monetary Fund (IMF) completed the third review of the Kyrgyz Republic's economic performance under the three-year Extended Credit Facility (ECF) arrangement. The Board's approval enables the immediate disbursement of SDR 9.514 million (about US$12.9 million). This would bring total disbursements under the arrangement to SDR 38.056 million (about US$51.5 million). The ECF arrangement for SDR 66.6 million (about US$92.4 million) was approved on April 8, 2015 (see Press Release No. 15/165).

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

"While pressures on the economy are moderating, the near–term outlook remains challenging. A subdued external environment and weak domestic demand are constraining growth prospects. Debt and financial sector vulnerabilities remain elevated. Against this background, prudent macroeconomic policies and steadfast implementation of structural reforms are critical to rebuilding buffers and increasing the resilience of the economy. While the program is facing significant domestic and external risks, including from dwindling commodity prices, protracted regional recovery, and policy slippages in the run-up to the 2017 presidential elections, the authorities' track record and policy commitments should provide sufficient safeguards.

"Notwithstanding the challenging environment, the Kyrgyz authorities were able to deliver on the most program commitments. All June quantitative performance criteria and indicative targets, and all but two structural benchmarks, were met.

"A full commitment to growth-friendly fiscal consolidation envisaged under the program is critical to maintaining public finances on a sustainable path. The consolidation efforts should be underpinned by credible and permanent revenue and expenditure measures. Increasing tax revenues, reducing the wage bill, streamlining nonpriority spending, and improving the public investment framework are necessary to rebuild buffers and reduce debt vulnerabilities.

Moreover, introducing a fiscal rule would support the authorities' efforts to ensure fiscal discipline.

"The NBKR should continue to pursue a two-way flexible exchange rate policy and limit interventions only to smoothing the excessive volatility of the som. The planned gradual transition to inflation targeting is welcome.

"While the adopted Banking Law includes some improvements, the dropping of key provisions by Parliament as well as the recent amendments weaken the Law. Envisaged amendments to the Banking Law would be needed to increase central bank independence, further strengthen the resolution framework, and preserve financial sector stability in the current weak economic environment."

Kyrgyz Republic: Selected Social and Economic Indicators, 2015–21

	2015	2016	2017	2018	2019	2020	2021
	Est.			Projections			
Nominal GDP (in billions of soms)	430.5	452.0	486.2	518.5	569.9	622.7	674.7
Real GDP (growth in percent)	3.5	2.6	2.3	2.9	5.9	5.3	4.3
Nongold real GDP (growth in percent)	4.5	2.4	2.8	3.5	3.9	4.5	5.0
Consumer prices (12-month percent change, eop)	3.4	1.5	4.7	5.5	5.2	5.1	5.0
Consumer prices (12-month percent change, average)	6.5	0.8	5.2	5.2	5.0	5.0	5.0
General government finances (in percent of GDP) 1/							
Revenue	35.6	38.0	36.3	35.4	35.1	35.0	35.2
Of which: Tax revenue	19.1	21.6	21.9	22.1	22.3	22.5	22.7
Expense	30.1	32.5	30.5	29.7	29.3	28.9	28.9
Gross operating balance	5.5	5.5	5.7	5.7	5.8	6.1	6.3
Net acquisition of nonfinancial assets	6.6	10.0	8.7	7.2	7.3	7.6	7.8
Overall balance(net lending/borrowing)	-1.2	-4.5	-3.0	-1.6	-1.5	-1.5	-1.5
Overall balance including onlending	-3.2	-7.9	-6.2	-4.0	-3.0	-1.5	-1.5
Total public debt 2/	65.0	62.1	64.2	65.5	64.2	62.0	60.3
Banking sector							
Reserve money (percent change, eop)	4.0	27.7	9.7	9.3	8.6	8.1	7.8
Broad money (percent change, eop)	14.9	16.1	12.5	10.9	10.8	9.7	8.8
Credit to private sector (percent change, eop)	17.2	1.5	11.2	14.1	14.4	11.4	10.4
Credit to private sector (in percent of GDP)	22.4	21.6	22.3	23.9	24.9	25.4	25.8
External sector							
Current account balance (in percent of GDP)	-10.9	-10.0	-13.6	-13.8	-11.9	-11.7	-11.5
Export growth (percent change)	-21.5	-0.1	6.0	5.6	14.3	10.3	4.7
Import growth (percent change)	-27.1	-0.1	10.4	5.6	6.0	5.9	4.2
Gross International reserves (in millions of U.S. dollars)	1,468	1,680	1,745	1,856	2,069	2,196	2,320
Gross reserves (months of next year imports, eop)	3.7	3.8	3.8	3.8	4.0	4.1	4.1
External public debt outstanding (in percent of GDP)	63.6	60.7	63.0	64.4	63.1	61.1	59.4

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

2/ Calculated at end-period exchange rates.

INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

December 5, 2016

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

KEY ISSUES

Context. After a difficult start of the year, pressures on the economy are moderating, helped by a stabilizing regional context. Growth, however, is expected to remain lower for longer, making adjustment policies even more important. While the appreciation of the exchange rate, together with the Public Investment Projects rescheduling, has reduced debt vulnerabilities, risks to the debt outlook persist. The authorities are taking additional efforts to adhere to the 2016 fiscal targets, but are asking for a relaxation of the 2017 targets given an improved debt outlook and a still weak economy. Despite declining dollarization, financial sector vulnerabilities remain high.

Program policies. Program conditionality has been broadly met. All end-June 2016 quantitative performance criteria and indicative targets have been met. All but two structural benchmarks were met. The review of subsidies was not completed on time owing to limited capacity. The Banking Law, which was initially adopted by Parliament in September with some of its key features diluted, was returned by the Office of the President who requested amendments that claw back some of the improvements in central bank independence in the version originally approved by Parliament, but the law still brings several improvements over the status quo. The Law was adopted again on November 30 including these amendments. However, to address the new Law's shortcomings, the authorities committed to amend it with the aim of reintroducing the key missing elements. The authorities are requesting modification of performance criteria to reflect the revised macroeconomic outlook and that the fourth disbursement (SDR 9.514 million) be available upon completion of the review.

Outlook and risks. With implementation of program policies, growth should gradually pick up over the medium term and converge to its potential. However, risks to the outlook remain significant, especially from a weak regional environment and pressures to loosen policies in the run-up to next year's presidential elections.

Approved By
Juha Kähkönen

Discussions were held in Bishkek during September 15–28 with Prime Minister Jeenbekov, Vice-Prime Minister Pankratov, Minister of Finance Kasymaliev, Minister of Economy Kozhoshev, Chairman of the National Bank Abdygulov, other senior officials, representatives of the private sector, civil society, and the diplomatic community. The staff team comprised Mr. Gemayel (head), Ms. Gicquel, Ms. Ostojic, Ms. Shi (all MCD), Mr. Pula (SPR), Mr. Said (Resident Representative), and Ms. Kadyrberdieva and Ms. Shambetova (both local economists). Ms. Lagveshkina and Mr. Surin assisted with interpretation and translation services. Mr. Rosenthal (MCD) provided research assistance. Administrative support was provided by Mr. Rigat (MCD).

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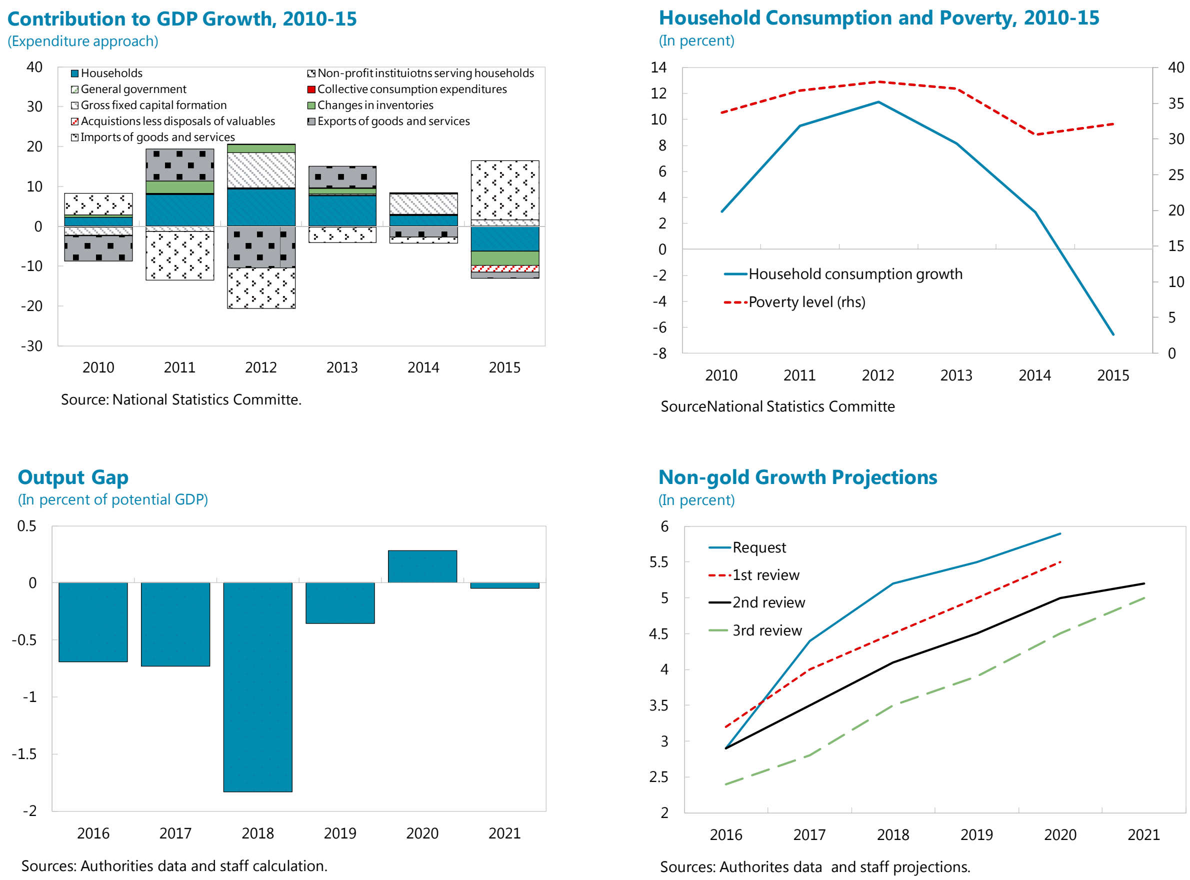
CONTEXT AND RECENT DEVELOPMENTS

1. **The Kyrgyz economy continues to face headwinds, despite some positive developments**. The regional economic recovery remains weak with negative output gaps, subdued consumption and low investment, which is limiting the Kyrgyz Republic's domestic and external demand, and thereby constraining growth prospects. Notwithstanding these headwinds, remittances have picked up and pressures on the som have subsided. However, with regional economies expected to grow at a slower pace for longer, the Kyrgyz economy is expected to remain on a lower-growth trajectory with limited fiscal space, calling for policy adjustments.

Figure 1. Kyrgyz Republic: Consumption and Poverty

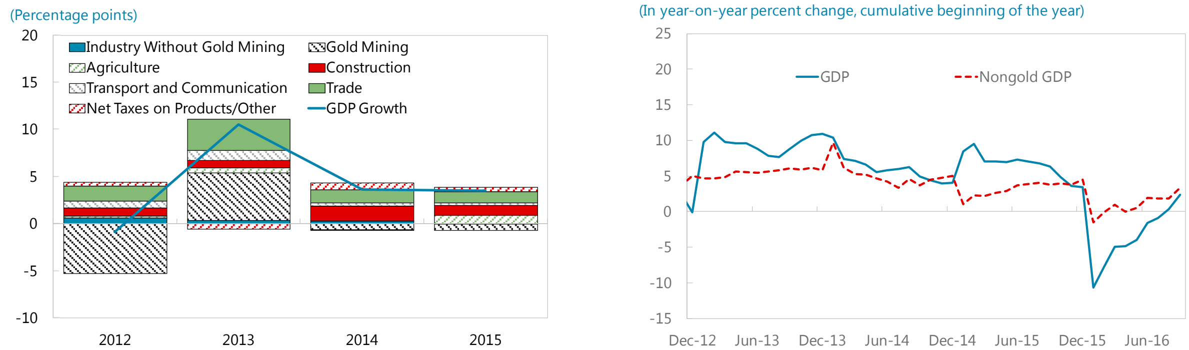


2. **Despite a modest recovery, growth remains weak.** For the first nine months of 2016, overall and non-gold growth grew by 2 percent and 3.1 percent y-o-y respectively. Consumption was boosted in the run-up to the September Nomad Games. Among sectors, trade, construction and agriculture contributed most to growth.

Figure 2. Kyrgyz Republic: Growth

Contribution to GDP Growth
(Percentage points)

Growth, 2012–16
(In year-on-year percent change, cumulative beginning of the year)



Source: National Statistics Committee.

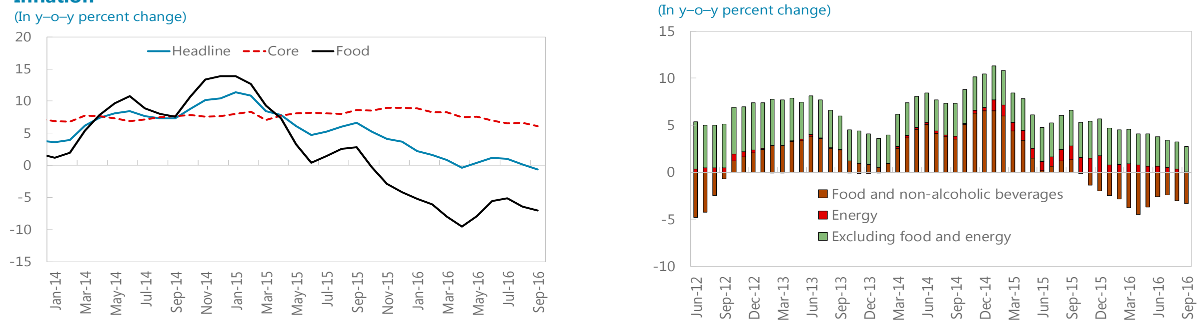
Source: National Statistics Committee.

3. While overall inflation is negative, core inflation is in the middle of the NBKR's 5-7 percent target range. Subdued growth, appreciating som, and declining domestic food prices — due to a good agriculture harvest and limited exports to the EEU on account of non-tariff barriers— are the key downward drivers of inflation, which turned negative in September (-0.3 percent y-o-y). Core inflation, however, remains at about 6 percent.

Figure 3. Kyrgyz Republic: Inflation

Inflation
(In y–o–y percent change)

Contributions to Inflation
(In y–o–y percent change)

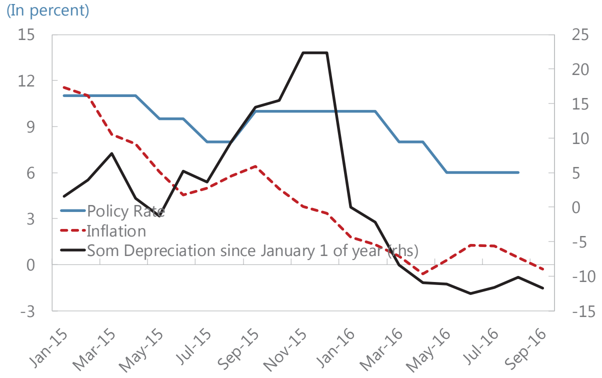


Source: National authorities.

Source: National authorities.

4. The NBKR gradually lowered its policy rate as inflationary and exchange rate pressures declined. By end-September, the policy rate was cut by 400 basis points to 6 percent. The som appreciated by about 9.5 percent against the U.S. dollar over the first 10 months reflecting tight market liquidity, an appreciating ruble, and recovering remittances. This allowed the NBKR to purchase in net terms about US$61 million. At the same time, reserve money picked up, as a result of the NBKR's unsterilized FX purchases. Despite monetary policy relaxation, interest rate on som-denominated loans remains high.

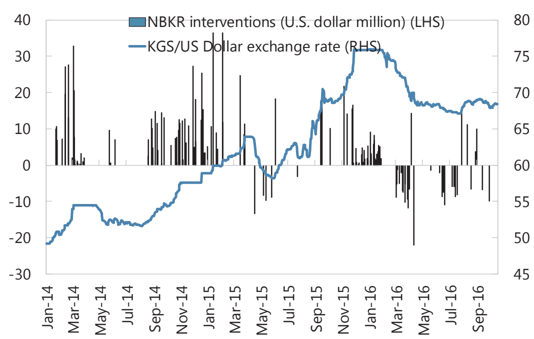
Policy Rate, Inflation, and Depreciation
(In percent)



Source: NBKR data.

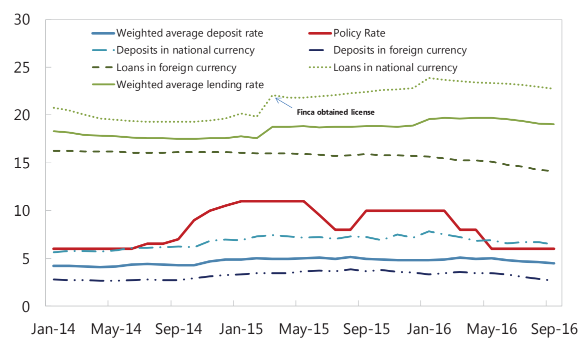
Figure 4. Kyrgyz Republic: Monetary Developments

Foreign Exchange Market, 2014–16



Source: National authorities.

Interest Rates
(In percent)



Source: National authorities.

5. **Fiscal performance during 2016: H1 was in line with the program, with the deficit limited to 2.5 percent of GDP.** Taxes, exceeded projections mostly due to higher-than-expected customs revenue following the introduction of new measures, especially on strengthening customs' payments and collection (LOI, Attachment I). Current expenditures were slightly higher than expected. On the other hand, capital expenditures were lower due to delays in some domestically financed projects.

Text Table 1. Kyrgyz Republic: 2016H1 Budget Execution
(In percent of GDP)

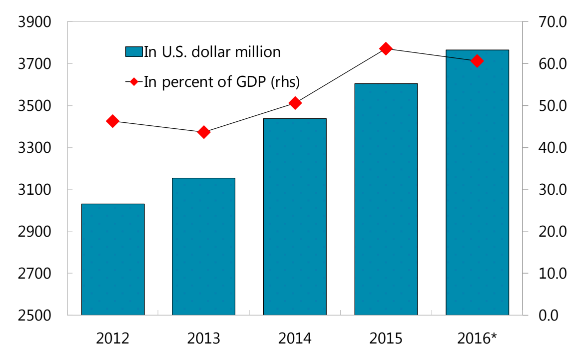
	2016 H1		
	Second ECF Review (A)	Prel. (B)	Difference (B)-(A)
Revenue	17.5	17.4	-0.1
Taxes	9.3	9.4	0.1
Taxes on international trade and transactions	1.1	1.4	0.3
Other	8.2	8.0	-0.1
Social contributions	2.8	2.7	0.0
Grants	1.9	1.9	0.1
Program grants	0.2	0.7	0.6
Project grants	1.7	1.2	-0.5
Other revenue	3.6	3.3	-0.2
Expenditure	15.2	15.3	0.1
Compensation of employees	5.0	5.2	0.2
Purchases/use of goods and services	3.1	3.1	0.0
Interest	0.6	0.6	-0.1
Subsidies	0.4	0.5	0.1
Grants	0.0	0.0	0.0
Social benefits	6.1	5.9	-0.2
Gross operating balance	2.3	2.1	-0.2
Net acquisition of nonfinancial assets	5.0	4.3	-0.7
Acquisition of nonfinancial assets	5.0	4.3	-0.8
Domestically financed	1.6	1.2	-0.3
Foreign financed	3.5	3.0	-0.4
Disposals of nonfinancial assets	0.0	0.0	0.0
Net lending/borrowing	-2.8	-2.2	0.6
Memorandum items:			
Nominal GDP (in billions of soms)	455.4	452.0	

Sources: Kyrgyz authorities and IMF staff estimates.

6. **After rapid increases in previous years, the external debt to GDP ratio declined slightly during the first eight months.** This was mainly driven by the appreciation of the som, but a rephasing of externally financed public investment projects also helped to contain the pace of debt accumulation.

7. **With remittances recovering and trade slowing down, the current account deficit remained largely unchanged**. Inflow of remittances picked up in US$ and RUB terms, as Kyrgyz citizens benefit from easier access to EEU labor markets, but is still well below pre-crisis levels. However, trade continues to lag due to weak gold exports and trade diversion. Exports have dropped by 12 percent y-o-y by end-August, while imports declined by 7.6 percent over the same period, mainly driven by lower energy imports and weak domestic demand. Strong inflows on the financial account, namely FDIs related to the Russia Kyrgyz Development Fund (RKDF) and capital and commercial banks' flows partly driven by the appreciation of the som, resulted in an increase in the level of reserves. The REER and NEER appreciated by 4.2 and 10.5 percent, respectively, over the first nine months.

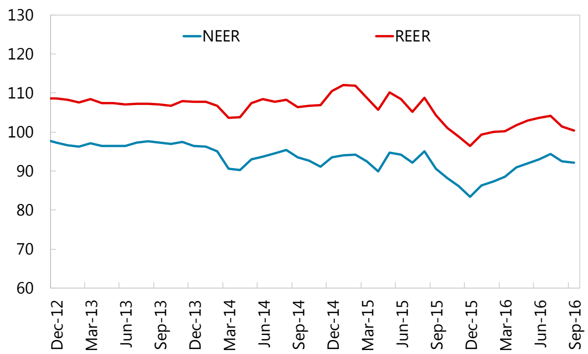
Public External Debt



* stock of debt as of end-August 2016
Sources: Authorities data and IMF staff calcualtions.

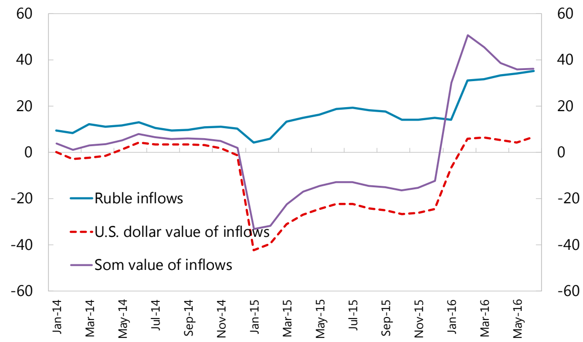
Figure 5. Kyrgyz Republic: Exchange Rates and Remittances

Exchange Rate Developments
(Index: 2010=100)



Source: INS.

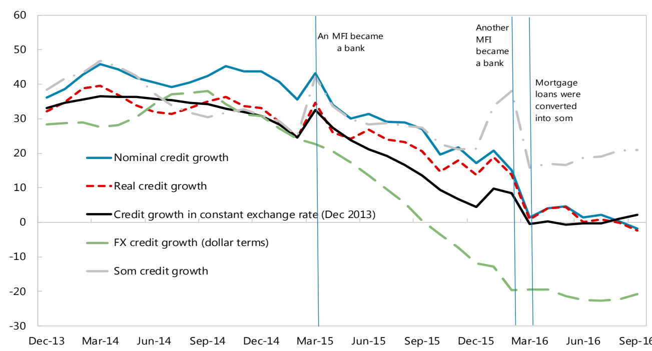
Remittances Inflows, 2014–16
(In percent, cumulative change, year-on-year)



Sources: Authorities data and IMF staff calculations.

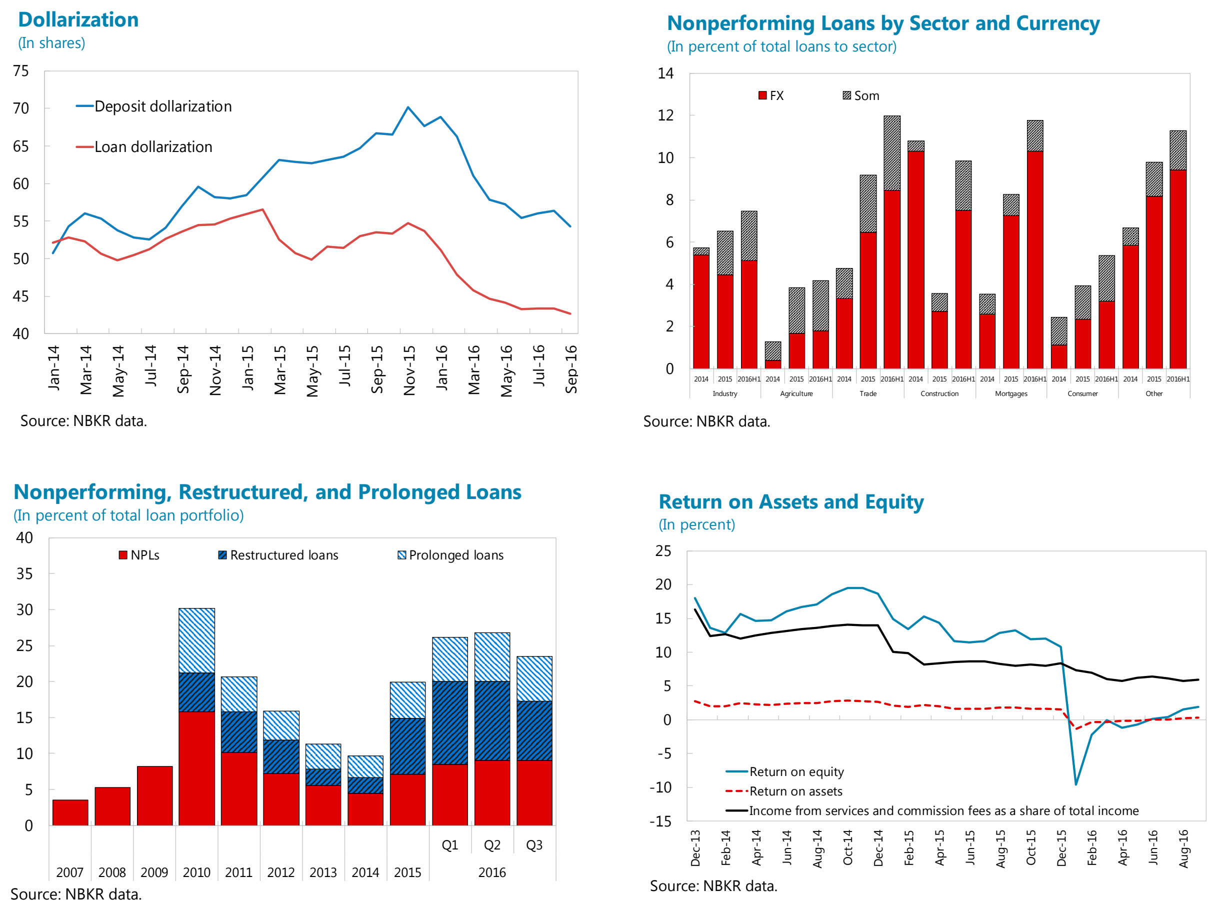
8. Despite strong capital buffers and falling dollarization, the banking sector remains vulnerable. Overall credit to the private sector contracted by 2 percent during the first three quarters as a result of the economic slowdown. Despite robust growth in som denominated loans (21 percent), the demand for dollar-denominated loans substantially fell (21 percent). The macro-prudential measures introduced since mid-2015 resulted in a drop in deposit and loan dollarization to 54 and 43 percent, respectively. The loan portfolio continued to deteriorate, largely due to the weak economic environment, with NPLs at 9.0 percent, loans under watch over 24 percent, and continued high incidence of loan restructuring and prolonging. Capital adequacy is high and all banks have met the new capital requirements of som 400 million.

Credit Growth
(In percent; year-on-year)



Sources: NBKR data and IMF staff calculations.

Figure 6. Kyrgyz Republic: Financial Sector Trends



9. Program performance was broadly satisfactory. All end-June quantitative performance criteria (QPCs) and indicative targets (ITs) were met. Two structural benchmarks (SBs) have not been met, namely the review of subsidies due to capacity constraints, and the publication of the Banking Law in the Official Gazette. To move forward with the review of subsidies, the authorities have asked for IMF technical assistance. As to the Banking Law, which was adopted by Parliament on November 30 with key provisions diluted (¶27), the authorities have committed to take remedial measures by agreeing to introduce amendments to the Law.

10. The political environment remains fluid. There were sporadic protests in the spring, the dispute with Centerra continues,[1] some former officials were arrested on criminal charges, and there have been frequent personnel changes at key positions. Disagreement over the recently proposed constitutional amendments led to the collapse of the ruling coalition in October and the resignation of the cabinet. A new government was subsequently formed with the outgoing prime minister and ministers of finance and economy retaining their posts. The authorities are focused on December's

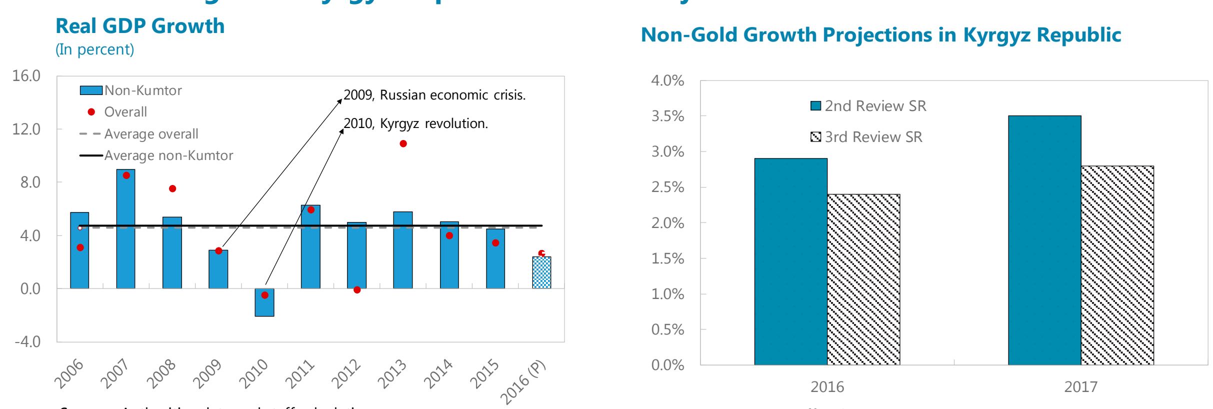
[1] The dispute between the Canadian company Centerra and the government stems from ongoing negotiations to restructure their respective shares in Kumtor, which were decided in 2009 by the previous political regime. In addition, there are disputes due to violation of environmental regulations and accusation of misappropriation of funds for intra-company transfers.

constitutional referendum and the presidential elections next year, which, in staff's views, could detract from the reform agenda.

OUTLOOK AND RISKS

11. While the near-term outlook has worsened, medium-term prospects should improve. Non-gold growth is now projected at 2.4 percent in 2016, which represents a sharp weakening of economic activity compared with historical rates observed before the crisis, and will remain on a lower trajectory over the near term. Slowdown in the credit growth will also have a drag on growth. Reaching potential growth of 5 percent over the medium term will be contingent on the adoption of appropriate policies and the recovery of trading partners' growth. Inflation in 2016 is expected to be lower than previously projected, and will gradually pick up over the near term as economic activity starts to recover. The current account deficit will narrow this year due to the rescheduling of PIPs, before widening in 2017/18, and will gradually moderate thereafter as remittances recover and public investment tempers.

Figure 7. Kyrgyz Republic: Growth Projections and Historic Trends



Sources: Authorities data and staff calculations.

Source: IMF staff estimates.

12. Downside risks continue to dominate the economic landscape. Near-term risks continue to stem from regional developments due to possibly lower-than-projected commodity prices and/or slower-than-anticipated growth in key trading partners, particularly in Russia and Kazakhstan, which could exacerbate financial and fiscal vulnerabilities, and delay economic recovery (Annex I). Full positive effects of the EEU accession are still to be realized, reflecting a weak economic activity within the union, lack of full compliance with EEU regulations, and trade diversion. Escalation of already difficult discussions with Centerra over the Kumtor mine poses a risk to the economy and weighs on the business climate (Annex II). Domestically, the President's proposed constitutional amendments are exacerbating political tensions in the run up to next year's presidential elections and will, in staff's views, preoccupy politicians and policy makers for the coming few months. Upside risks include the strengthening of economic ties with China (Annex III), the projects financed by the RKDF, and a larger than expected impact from EEU membership.

13. The authorities broadly agreed with staff views on the outlook and risks. Their growth projections are more optimistic than staff's forecast, reflecting their expectation of a faster recovery in the region and higher growth dividend of intensive public investments. They also agreed on the risks in the financial sector, as well as mounting debt vulnerabilities. Regarding the EEU, the authorities indicated that they are still adjusting to the new rules and requirements.

PROGRAM ISSUES

A. Resuming Fiscal Consolidation

14. Spending pressures during 2016: H2 risk jeopardizing the end-year fiscal targets. Tax revenues will be slightly below projections, due to the recently introduced VAT exemption on the import of grains and the sale of flour. However, non-tax revenues should exceed projections due to higher than expected dividends from SOEs and the NBKR. Expenditures, on the other hand, are under pressure. Goods and services and domestically financed capital expenditures are expected to exceed the second review projections, by 1.3 and 2 percentage points of GDP, respectively. This is the result of (i) the country hosting three international events during the second half of the year, incurring higher spending than budgeted (1 percentage point of GDP);[2] (ii) larger-than-expected spending of revenue collected in 2015 by public agencies but not spent (1.2 percentage points of GDP); and (iii) building law enforcement housing and schools (1.1 percentage points of GDP). Overall, absent any corrective measures, the headline deficit could exceed 7 percent of GDP.

Text table 2. 2016 Budget Comparison

(In percent of GDP)

	2016	
	Latest Proj.	2nd Review Proj.
Revenue 1/	38.0	37.9
Taxes	21.6	21.8
Social contributions	5.7	5.6
Grants	4.4	5.5
Other revenue	6.3	5.0
Expense	32.5	30.9
Compensation of employees	10.1	10.1
Purchases/use of goods and services	8.5	7.2
Interest	1.2	1.4
Subsidies	0.8	0.4
Grants	0.1	0.1
Social benefits	11.9	11.7
Gross operating balance	5.5	6.9
Net acquisition of nonfinancial assets	10.0	11.4
Acquisition of nonfinancial assets	10.0	11.5
Domestically financed	4.7	2.7
Foreign financed 2/	5.3	8.7
Disposals of nonfinancial assets	0.0	0.0
Net lending/borrowing	-4.5	-4.5

Sources: Kyrgyz authorities and IMF staff estimates and projections.
1/ Mineral fees are now classified under other revenue. They were previously classified under taxes.
2/ Including grants in-kind from EEU accession.

15. Despite the above anticipated slippages, the authorities remain committed to a deficit target of 4.5 percent of GDP for 2016. To meet this target, they will seek to implement the tax policy and administration measures identified at the time of the second review (LOI, Attachment I). However, some of these measures necessitate legislation and may only be implemented next year. As a result, only about half of them will be implemented this year (0.5 percentage point of GDP). On the

[2] The Nomad games, the CIS summit, and the Turkic language states summit.

expenditure side, they will resort to rephasing foreign financed capital expenditures to close the gap and reach the deficit target.

16. Although the draft 2017 budget submitted to Parliament features a looser-than-programmed fiscal stance, the authorities agreed to reduce the deficit to sustainable levels. The government initially submitted to Parliament a draft budget featuring a deficit of 4.7 percent of GDP compared to a commitment at the time of the second review of 2.4 percent of GDP, arguing an improvement in the overall debt outlook and a weak economic environment. Staff pointed out that notwithstanding the improved debt position, debt sustainability remains a concern and thus growth-friendly consolidation efforts should continue. In the end, the authorities and staff agreed to relax the deficit for 2017 to 3 percent of GDP (LOI, ¶11). To achieve this target, the authorities agreed to: (i) implement all the fiscal measures identified at the time of second review; (ii) reduce the wage bill; (iii) bring down goods and services to the 2015 level in percent of GDP through an across-the-board cut in non-priority spending; and (iv) refrain from populist measures in the run-up to next year's presidential election. Even with the slightly looser target, the cyclically-adjusted balance would still significantly improve by 1.7 percentage points of GDP.

17. In addition to the identified measures, and to bolster their credibility, the authorities also committed to the following:

a. **On the revenue side,** reviewing natural resources taxation and reversing the VAT exemption on the import of grains and the sale of flour.

b. **On the expenditure side,** streamlining subsidies once the ongoing review is completed (LOI, ¶11), (SB, July 2017), improving the targeting of social benefits, and refraining from potential quasi-fiscal activities that may have budgetary implications.

c. **On tax administration,** strengthening the State Tax Services (STS) to smooth the transition to the EEU and to gradually expanding the functions to the STS. Efforts will continue to reduce the size of the informal economy and limit corruption by introducing cash registries and encouraging e-filing for individual and corporate taxes.

18. taff urged the authorities to pursue the action plan to reform public sector wages and to commence a gradual reduction of the wage bill. The objective under the action plan is to rationalize staffing and to reduce the wage bill by 1.4 percentage points of GDP, to reach a wage bill of 8.7 percent of GDP by 2018 (LOI, ¶11), in line with Fund's TA recommendation. The authorities have started to implement the action plan in 2016: Q4 and plan to reduce the wage bill by 0.4 and 1 percentage point of GDP in 2017 and 2018, respectively. Staff would have preferred a more evenly balanced reduction of the wage bill over the next two years. The authorities recognized that the reduction in 2018 is ambitious, but argued that with presidential elections taking place in 2017, it would be very difficult to commit to additional cuts. However, to strengthen the credibility of their action plan, they committed to identify specific quantitative measures that would allow them to reach the targeted reduction—(SB, May 2017).

Text Table 3. Effort to Reduce the Wage Bill by 2018
(In percent of GDP)

	Items	Details
Effort under the TA	1.1	A
Additional effort 1/	0.3	B=F-G
Total effort	1.4	C=A+B
2018 revised target	8.7	D=E-C
Memo items:		
2016 projected wage bill	10.1	E
2016 projected wage bill with TA GDP	9.7	F
2016 projected wage bill at the time (	9.4	G

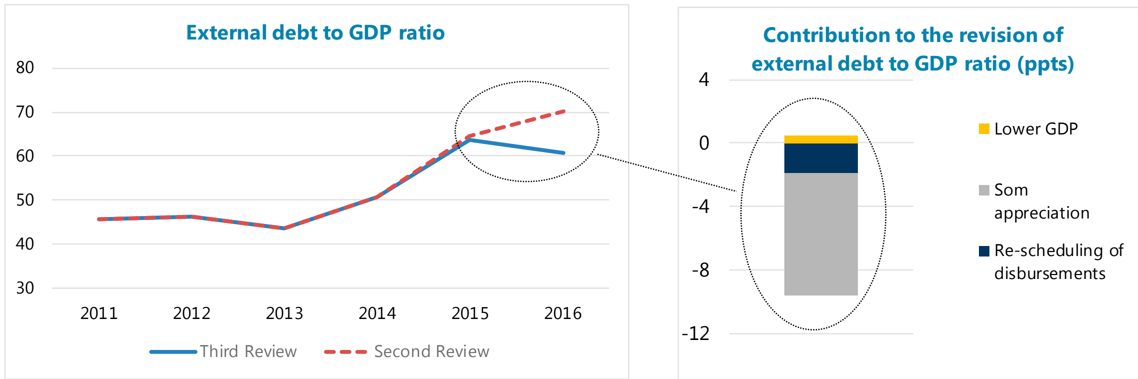
Sources: Kyrgyz authorities and IMF staff estimates and projections.
1/ from the teachers' salary increase

19. Strengthening public financial management remains a top priority (LOI, ¶23). The authorities will (i) revisit the budgetary process with the objective of enhancing cooperation among the ministry of finance (MoF), the ministry of economy (MoE), and the prime minister's office; (ii) develop a fiscal rule, which will include limits on external debt and the fiscal balance (Annex IV); (iii) continue working on the implementation of the financial management information system (FMIS) to improve expenditure monitoring and oversight of budget operations—signing the FMIS' terms of reference was postponed by three months at the donor's request (SB new deadline, May 2017); (iv) sign the contract with the IT provider (SB, September 2017); (v) continue to pursue accounting reforms to improve reporting and transparency; and (vi) work on including fiscal risks into their budget framework.

B. Preserving Debt Sustainability

20. Whereas the debt outlook has improved, it remains vulnerable to external and domestic shocks. Driven by the som appreciation and the rescheduling of some public investment projects, external public and publicly guaranteed debt is projected to drop to 60.7 percent of GDP in 2016, compared to 64.6 percent in 2015. According to the latest DSA, external debt remains at a moderate risk of debt distress, and is no longer considered a high-moderate borderline case. Nonetheless, vulnerabilities to large external shocks persist, in particular to a sizable depreciation of the exchange rate and/or to a massive scaling-up of public investments. Furthermore, public investment projects, if not profitable, would not increase the country's future capacity to repay its debt, which combined with the potentially higher costs of borrowing, could push debt to an unsustainable path (Annex V).

Figure 8. Kyrgyz Republic: Contribution to the Revision of External Debt



Sources: Authorities data and IMF staff calculations.

21. While the authorities welcomed the results of the recent DSA, they acknowledged the elevated debt vulnerabilities. They indicated to staff that they are committed to (i) pursuing fiscal consolidation efforts over the medium term; (ii) refraining from non-concessional borrowing; (iii) improving debt monitoring; (iv) minimizing fiscal risk stemming from SOEs; (v) ensuring sufficient profitability of public investment projects; and (vi) enhancing the efficiency of public sector investments by implementing the PIMA recommendations. Regarding the latter, a government decree was issued to clarify the respective roles of the MoE and MoF in the decision-making process. In this context, staff encouraged the authorities to expeditiously update the PIP guidelines.

C. Balancing Monetary and Exchange Rate Policies

22. A neutral monetary stance at this juncture is appropriate. Staff and the authorities agreed that the key causes of low inflation are exogenous and thus do not see any merit for further relaxation. They also concurred that given monetary policy's lagged effect on key economic variables, the current level of the policy rate at 5.5 percent is adequate, as it balances the need for policy relaxation stemming from the recent drop in headline inflation, moderation in credit growth, exchange rate appreciation, and weaker growth prospects. The NBKR pointed out that it stands ready to fine-tune its policy in line with emerging market pressures (LOI, ¶13).

23. Enhancing the monetary transmission mechanism remains a priority for the NBKR (Annex VI). Staff and the authorities agreed to (i) gradually narrow the corridor around the policy rate and make it more symmetric; (ii) improve coordination between the NBKR, MoF, and the RKDF to facilitate liquidity forecasting; and (iii) enhance the forward-looking component of the NBKR's communication policy. Once the policy rate traction becomes more effective, the NBKR aims to gradually transition to inflation targeting (LOI, ¶14).

24. The NBKR reiterated its commitment to allow the exchange rate to be market determined with limited intervention. It considered that the appreciating trend of the som since the beginning of the year reflected market forces. Staff underscored the importance of striking a careful balance in the NBKR's foreign exchange intervention policy between financial sector stability and external competitiveness without any government interference in its decision-making process (LOI, ¶15). Staff also emphasized the importance of a two-way intervention policy.

25. The authorities are committed to maintain reserves at, adequate level given the economy's vulnerability to shocks and high dollarization. After overvaluation in previous years, the significant depreciation of the somvis-à-vis the U.S. dollar brought the real effective exchange rate broadly in line with fundamentals by end-2015. However, the nominal exchange rate appreciation since the beginning of this year has partly offset the gains in competitiveness. Reserve coverage is adequate and provides a cushion in case of an unexpected drop in remittances or exchange rate pressures.

Text Table 4. Estimated Exchange Rate Misalignment: Comparison Between Reviews 1/

	Second Review	Third Review
EBA LITE CA	4.8	2.5
EBA LITE ES	10.8-18.8	0.4-21.4
CGER Macroeconomic Balance	-3.8	2.3
CGER External Sustainability	-4.8	4.4
CGER Purchasing Power Parity	-1.4	-3.5

Sources: Authorities data and IMF staff calculations.
[1] Positive numbers indicate overvaluation

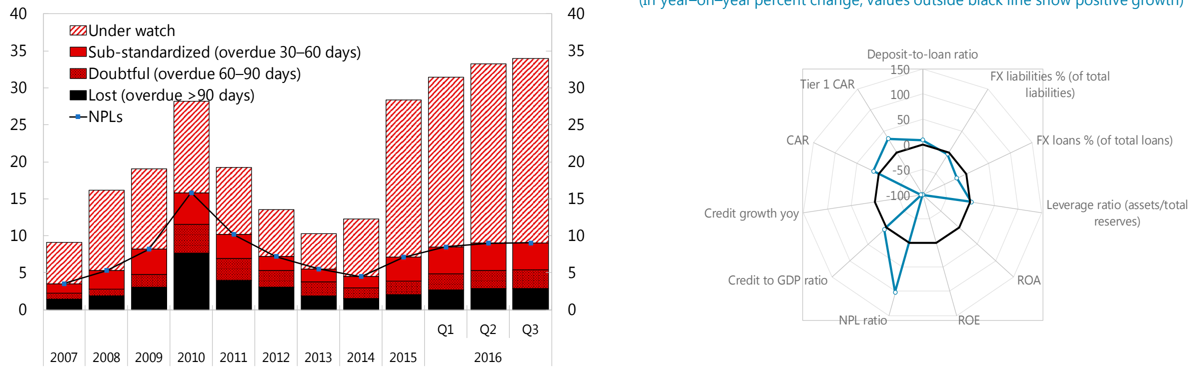
D. Safeguarding Financial Stability

26. The authorities are taking additional efforts to mitigate the elevated financial risks. While the recent appreciation of the som has contained banking sector risks, key vulnerabilities continue to stem from high dollarization and credit risk due to the economic slowdown. In addition to regularly conducting stress tests, the NBKR agreed to improve monitoring of the non-performing loan portfolio. In this context, they are collecting additional data on individual NPLs and improving regulations for classification of assets (LOI, ¶16). Staff urged the NBKR to ensure adequate provisioning for NPLs. Moreover, the authorities have established a high-level Financial Stability Council, and developed a Crisis Preparedness Framework (LOI, ¶18). They are also finalizing the strategic plan for supervision and have completed the risk-based supervision of five banks (LOI, ¶17).

Figure 9. Kyrgyz Republic: Financial Sector Stability

Loan Classification, 2007–16
(In percent of total loan portfolio)

Selected Indicators of Financial Soundness
(In year–on–year percent change; values outside black line show positive growth)



Source: NBKR data.

Source: National Authorities

The Banking Law, which was passed on November 30 with key provisions missing or diluted, still brings several improvements over the status quo and provides a basis for further work to enhance the banking sector regulatory framework. The draft law was in Parliament for almost three years, facing opposition from vested interests and from those with concerns that the law would contradict the spirit of the constitution.[3] In the end, Parliament's approval of the Law necessitated compromises which weakened some key provisions, namely (i) limitations to the scope of judicial review of decisions taken by the NBKR with respect to license revocation and bank resolution; (ii) the autonomy of the NBKR by introducing provisions that permit the NBKR to grant loans to non-supervised institutions; (iii) the framework for early intervention and resolution of problem banks; and (iv) the NBKR's Board composition, which should comprise a majority of non-executive members. Following the adoption of the Law by Parliament on September 28, the Office of the President returned it to Parliament requesting the introduction of some amendments to (i) clarify some provisions and address some discrepancies in the Law;[4] and (ii) return to the status quo with respect to the NBKR's budget preparation and Board members' remuneration.[5] The current version brings several improvements over the existing framework as it (i) reduces the duplication, overlaps, and contradictions prevalent under the existing patchwork of laws and regulations; (ii) introduces the concept of protection of consumer rights; (iii) streamlines and clarifies the process of issuing and withdrawing banking licenses and strengthens the NBKR role in this process; (iv) strengthens corporate governance requirements for banks and stiffens the penalty regimes for violators; (v) protects NBKR staff from legal prosecution in the conduct of their duties; and (vi) repeals

[3] The legislation was downgraded from a code to a law to address this concern. In addition, some parliamentarians felt that the concept of judicial review, which was proposed in the original draft law before it was dropped, contradicts the constitution.

[4] These provisions, as per status quo, pertain to clarifying that the NBKR (i) falls under the ownership of the Kyrgyz Republic, (ii) is the fiscal agent of the government, and (iii) operates in accordance with the legislation of the Kyrgyz Republic.

[5] Under the status quo, the NBKR prepares its own budget, in accordance with the procedure established by a 1998 Presidential Decree, and the NBKR's Board members' remunerations are determined by the President. However, under the Banking Law that was approved by Parliament last September, the NBKR is responsible for the preparation of its budget and the NBKR's Board decides on the remunerations of its members.

the law on bank conservation (one of the five laws to be replaced by the new Law), which removes the legal basis for Debt Enterprise Bank Resolution Agency (DEBRA)—a long-standing program objective.

27. Staff would have preferred the adoption of the Banking Law with all key provisions included and without the recent amendments proposed by the Office of the President. However, the authorities pointed out that attempts to re-introduce some of the key provisions in the current Law before its enactment could have resulted in a protracted process. As to the Office of the President's amendments, particularly those that could infringe on the NBKR's independence, they indicated that existing legislation has been in effect for about two decades under three very different administrations and has never been used to influence the NBKR's decision-making process. Staff and the authorities agreed that since near-term banking sector vulnerabilities were contained as a result of the various measures introduced by the NBKR since the beginning of the program,[6] that there was merit in cementing the gains achieved so far while continuing to pursue further strengthening of the Law.

28. Accordingly, to address the shortcomings of the new Banking Law, the authorities agreed to seek its amendment, but cautioned that it will take time (LOI, ¶19). Staff and the authorities agreed that the amendments will be prepared by April (SB), and submitted to Parliament in July (SB), after the Law comes into force—six months after its enactment— and taking into account political economy considerations. The authorities underscored their commitment to exerting their best efforts to amend the Law, but also pointed out that some parliamentarians may continue to object to some of the amendments such as the limitation of judicial review.[7]

29. The liquidation of the banks under DEBRA is underway. The court has already ordered the liquidation of "Bishkek", "Adil", "Kurulush" and "Mercury" banks.[8] The authorities and staff agreed on the importance of a timely liquidation of all the remaining banks under DEBRA's management.

E. Advancing Structural Reforms

30. The authorities recognized that improving the business climate is essential for diversifying the economy and improving the economy's competitiveness within the EEU. The country's 2017 Doing Business ranking remained largely unchanged, and it continues to lag behind its' peers in key areas. The authorities and staff agreed that bold reforms are needed in several areas, including financial inclusion, trading across borders, the insolvency regime, access to electricity, and

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[6] Namely: (i) macro-prudential measures (increased provisioning for lending in foreign currency, prohibition of consumer and mortgage lending in foreign currency, capital buffers, stricter liquidity requirements, and differentiation of reserve requirement); (ii) an increase and unification of capital requirement for banks; (iii) liquidation of banks under DEBRA; (iv) development of a crisis preparedness framework; (v) establishment of a high-level financial sector stability council; and (vi) development of a strategic plan for supervision, including transition to risk-based supervision

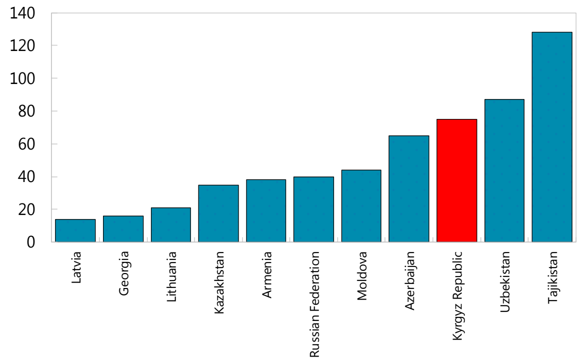
[7]Concept of limitation of judicial review stipulates that courts cannot interrupt the central banks' actions during the process of a bank's license revocation, resolution or liquidation.

[8] The court order for liquidation of the Mercury bank will likely be appealed by depositors—not covered by the Deposit Protection Agency.

contract enforcement. These productivity-boosting reforms, in conjunction with the large infrastructure investment program currently undertaken, will help the Kyrgyz Republic improve its competitiveness, particularly within the EEU. Staff also underscored the importance of a constructive and fair resolution of the dispute with Centerra, which is critical for maintaining a stable and predictable investment climate.

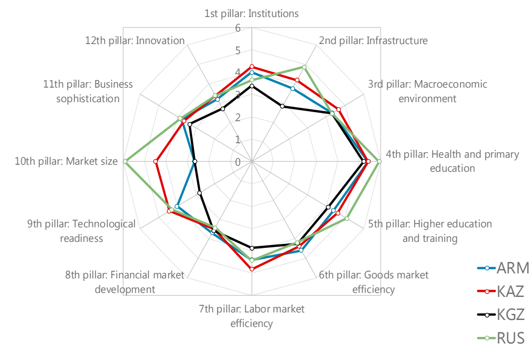
Figure 10. Kyrgyz Republic: Doing Business and Competitiveness

Cross-Country Comparison of Ease of Doing Business
(Rank, 2017)



Source: Doing Business database.

Global Competitiveness of EEU Member States
(Scale of 1–7 for each indicator, 7 being best)

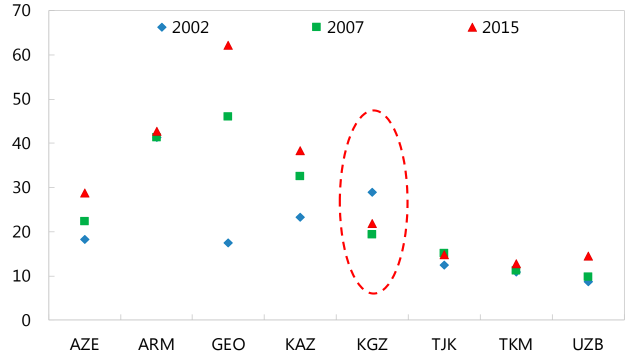


Source: World Economic Forum Global Competitiveness Report, 2016–17

31. Staff underscored the need to address governance issues to improve the economy's efficiency. According to Transparency International, corruption perception remains high, while governance indicators are deteriorating. Staff emphasized, and the authorities agreed, that timely adoption of the AML/CFT law by Parliament should contribute to a positive assessment of technical compliance with the FATF standard by the Eurasian Group on Combating Money Laundering and Financing of Terrorism later this year. Staff encouraged the authorities to address the remaining shortcomings of the draft law, particularly by bringing the framework for preventing officials to launder the proceeds from corruption in line with the FATF standard. Staff cautioned the authorities against amending the recently enacted procurement law, and warned that the suspension of the e-procurement system would be a step backward.

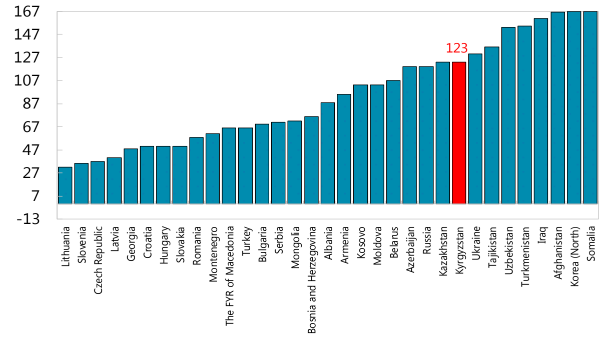
Figure 11. Kyrgyz Republic: Governance and Corruption

Governance Indicators
(In percentile rank)



Source: Worldwide Governance Indicators.

Corruption Perception Index
(Rank, 2015)



Source: Transparency International data.

F. Program Modalities

32. Program design and modification of performance criteria. Revised QPCs for December 2016 and new QPCs for June and December 2017—on the floor on NIR, ceiling on NDA, ceiling on cumulative overall deficit of the general government, and present value on new external debt contracted or guaranteed, and ITs on ceiling on reserve money, cumulative state government tax collections, non-concessional borrowing and a new IT on introduction of new or extension of the existing tax exemptions—are proposed (LOI, Table 1) to reflect the revised macroeconomic outlook. Structural conditionality (LOI, Table 2) will focus on macro-critical areas, particular in the financial sector and reforms to support fiscal consolidation. The program will continue to be monitored on a semi-annual basis.

33. Financing needs for 2016 and 2017 are covered. The IMF, along with multilateral and bilateral partners, is expected to cover the country's financing gap for this year and 2017. Despite the downside risk to the outlook, the Kyrgyz Republic's capacity to repay the Fund is expected to remain adequate.

34. An updated safeguards assessment was completed in October 2015. The assessment concluded, inter alia, that legal amendments were needed to strengthen governance and autonomy at the central bank. The timely passage of the necessary amendments to the Banking Law will strengthen the independence of the NBKR.

Text Table 5. Kyrgyz Republic: Balance of Payments Financing, 2016–18

	2016 Proj.	2017 Proj.	2018 Proj.
	(In millions of U.S. dollars)		
Financing Gap	118	73.7	88.9
Available financing	91.0	47.1	75.6
Identified budget support	91.0	47.1	25.6
World Bank	21.8	15.9	1.4
European Union	26.7	24.2	24.2
Other grants	42.5	7.0	0.0
Unidentified budget support	0.0	0.0	50.0
IMF ECF disbursement	26.6	26.6	13.3
	(In percent of GDP)		
Financing gap	1.8	1.1	1.3
Available financing	1.4	0.7	1.1
Identified budget support	1.4	0.7	0.4
World Bank	0.3	0.2	0.0
European Union	0.4	0.4	0.3
Other grants	0.6	0.1	0.0
Unidentified budget support	0.0	0.0	0.7
IMF ECF disbursement	0.4	0.4	0.2
Memo item:			
GDP (in millions of U.S. dollars)	6,554	6,768	7,085

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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35. The subdued external environment facing the Kyrgyz Republic calls for a continued strong policy response. The Kyrgyz economy continues to adjust to large and persistent external shocks, particularly the slump in oil prices, depressed economic conditions in Russia, and economic slowdown in China, which have amplified domestic vulnerabilities. At the same time, large external borrowing has significantly increased debt levels, and the som depreciation in previous years, while recently reversed, has elevated financial and debt vulnerabilities. Absent a more decisive implementation of macro policies and reforms, growth will remain sluggish and below potential.

36. Fiscal consolidation and improvement of the public investment framework are necessary to ensure public debt sustainability. The large slippage in non-priority outlays this year is unfortunate, and reaching the budget deficit target will necessitate cuts in much-needed investment. Reliance on grants, one-off revenues, and ad hoc expenditure cuts to keep fiscal deficits within program targets should not be substitutes for permanent measures. Going forward, growth-friendly consolidation efforts should be pursued through boosting tax revenues, reducing the wage bill, streamlining goods and services, and improving the public investment framework. Prudence should be exercised when selecting new infrastructure projects, and contracting and guarantying new public debt. Strengthening coordination among various government agencies to ensure an efficient budget process will be critical. Adopting a fiscal rule will be essential to guide fiscal policy-making over the medium term.

37. A neutral monetary stance is warranted in the current deflationary environment, while efforts should continue to enhance the transmission mechanism and maintain a flexible exchange rate policy. The som's appreciation in conjunction with low food prices are likely to keep inflation low. The NBKR should continue to monitor developments and inflationary expectations carefully and adjust monetary policy as needed. Moreover, the NBKR should intensify its work on improving the monetary transmission mechanism before transitioning to inflation targeting. The NBKR's commitment to a flexible exchange rate policy is welcome. A two-way FX intervention policy is critical to strike a careful balance between financial sector stability and external competitiveness.

38. Continued efforts are needed to strengthen the resilience of the financial sector. While staff regrets the dilution of some key provisions of the Banking Law during the parliamentary deliberations as well as the recent Office of the President's amendments, the Law still brings several improvements over the status quo. A stronger commitment by the authorities will be needed to swiftly reintroduce the key provisions that were diluted; these would represent a critical enhancement to the law that would put it at par with international best practices, and will help preserve financial sector stability, particularly in the current difficult economic environment. Efforts to strengthen supervision by developing a strategic plan for banking supervision, improve the quality of prudential regulation, and put in place a crisis preparedness framework are all welcome. Finalizing the liquidation of all the banks under DEBRA and winding down DEBRA's activities are important measures to enhance confidence in the banking sector.

39. Bold structural reforms are necessary to improve the economy's competitiveness. Improving the business climate, addressing infrastructure bottlenecks, fostering financial inclusion and tackling corruption are necessary to unlock the economy's potential, boost long-term growth, and lift people out of poverty. Speeding up PFM reforms will improve public sector efficiency and accountability. Simplifying cross-border trade, better enforcement of contracts and faster resolution of insolvency will allow the Kyrgyz Republic to have a competitive edge within the EEU.

40. The program continues to face significant external and domestic risks, but the authorities' policy commitments provide adequate safeguards. A further drop in oil prices, and/or slower-than-anticipated growth in key trading partners could delay the recovery. Political resistance to reforms, as well as populist polices in the run up to next year's presidential elections, could reverse the reform process, and heighten fiscal and financial vulnerabilities. Continued dialogue with the Fund is essential for the success of the program, along with the commitment to adjust policies as needed to achieve the program's objectives.

41. Staff supports completing the third review of the authorities' program under the ECF arrangement. Staff supports the authorities' request to modify the end-December 2016 and set new end-March, end-June, end-September, and end-December 2017 QPCs and ITs. The policies outlined in the attached LOI are adequate to achieve the program's goals.

Table 1. Kyrgyz Republic: Selected Economic Indicators, 2014–21

I. Social and Demographic Indicators

Population (in millions, 2015)	5.9	GINI Index (2012)	27.37
Unemployment rate (official, 2013)	8	Life expectancy at birth in years (2014)	70.4
Poverty rate (2015)	32.1	Adult literacy rate (percent of population)	99
GNI per capita (2015, Atlas method, U.S. dollars)	1,170	Under-five mortality (per 1000 live births) (2015)	21

II. Economic Indicators

	2014	2015	2016		2017	2018	2019	2020	2021
	Act.	Act.	2nd review	Proj.	Projections				
Nominal GDP (in billions of soms)	400.7	430.5	455.4	452.0	486.2	518.5	569.9	622.7	674.7
Nominal GDP (in millions of U.S. dollars)	7,465	6,758	5,882	6,554	6,768	7,085	7,560	8,021	8,437
Real GDP (growth in percent)	4.0	3.5	3.0	2.6	2.3	2.9	5.9	5.3	4.3
Nongold real GDP (growth in percent)	5.0	4.5	2.9	2.4	2.8	3.5	3.9	4.5	5.0
GDP per capita (in U.S. dollars)	1,266	1,123	971	1,073	1,092	1,127	1,186	1,240	1,285
Consumer prices (12-month percent change, eop)	10.5	3.4	5.8	1.5	4.7	5.5	5.2	5.1	5.0
Consumer prices (12-month percent change, average)	7.5	6.5	2.8	0.8	5.2	5.2	5.0	5.0	5.0
Investment and savings (in percent of GDP)									
Investment	27.1	29.2	31.3	31.4	32.2	32.7	31.8	29.5	30.3
Public 1/	8.8	8.9	16.6	13.9	13.1	11.7	10.3	7.7	8.5
Private	18.3	20.3	14.7	17.5	19.1	21.0	21.5	21.9	22.5
Savings	11.1	18.3	16.1	21.4	18.6	19.0	19.8	17.8	18.8
Public	9.3	6.1	7.0	5.7	9.5	11.5	11.9	12.0	12.5
Private	1.8	12.1	9.1	15.7	9.1	7.5	7.9	5.8	6.3
Savings-investment balance	-16.0	-10.9	-15.2	-10.0	-13.6	-13.8	-11.9	-11.7	-11.5
General government finances (in percent of GDP) 2/									
Revenue	35.3	35.6	37.9	38.0	36.3	35.4	35.1	35.0	35.2
Of which: Tax revenue	20.4	19.1	21.8	21.6	21.9	22.1	22.3	22.5	22.7
Expense	29.7	30.1	30.9	32.5	30.5	29.7	29.3	28.9	28.9
Gross operating balance	5.7	5.5	6.9	5.5	5.7	5.7	5.8	6.1	6.3
Net acquisition of nonfinancial assets	4.7	6.6	11.4	10.0	8.7	7.2	7.3	7.6	7.8
Overall balance(net lending/borrowing)	1.0	-1.2	-4.5	-4.5	-3.0	-1.6	-1.5	-1.5	-1.5
Overall balance excluding foreign financed PIP loans	3.5	1.3	4.2	0.8	3.1	2.6	2.7	3.7	2.9
Overall balance including onlending	-3.7	-3.2	-8.7	-7.9	-6.2	-4.0	-3.0	-1.5	-1.5
Primary net lending/borrowing	1.9	-0.2	-3.1	-3.3	-1.7	-0.4	-0.7	-0.7	-0.7
Primary balance excluding foreign financed PIP loans	4.3	2.2	5.6	2.0	4.4	3.8	3.6	4.6	3.8
Primary balance excluding grants	-0.5	-2.3	-8.7	-7.7	-5.6	-3.1	-2.4	-1.7	-1.6
Cyclically adjusted balance	-4.8	-3.9	-7.2	-7.7	-5.9	-3.3	-1.4	-1.7	-1.5
Cyclically adjusted balance excluding foreign financed PIP loans and grants	-2.8	-2.0		-5.4	-3.0	-0.7	1.7	2.6	2.0
Total public debt 3/	52.3	65.0	73.1	62.1	64.2	65.5	64.2	62.0	60.3
Banking sector									
Reserve money (percent change, eop)	-11.9	4.0	13.5	27.7	9.7	9.3	8.6	8.1	7.8
Broad money (percent change, eop)	3.0	14.9	14.0	16.1	12.5	10.9	10.8	9.7	8.8
Credit to private sector (percent change, eop)	43.6	17.2	10.4	1.5	11.2	14.1	14.4	11.4	10.4
Credit to private sector (in percent of GDP)	20.5	22.4	23.3	21.6	22.3	23.9	24.9	25.4	25.8
Velocity of broad money 4/	3.2	3.0	2.8	2.7	2.6	2.5	2.5	2.5	2.5
Policy Rate 5/	10.5	10.0	...	...	...	...	...	...	...
External sector									
Current account balance (in percent of GDP)	-16.0	-10.9	-15.2	-10.0	-13.6	-13.8	-11.9	-11.7	-11.5
Export of goods and services (in millions of U.S. dollars)	3,383	2,656	2,539	2,653	2,812	2,969	3,392	3,741	3,918
Export growth (percent change)	-20.0	-21.5	-4.1	-0.1	6.0	5.6	14.3	10.3	4.7
Import of goods and services (in millions of U.S. dollars)	6,521	4,755	4,763	4,753	5,249	5,545	5,877	6,222	6,485
Import growth (percent change)	5.7	-27.1	1.7	-0.1	10.4	5.6	6.0	5.9	4.2
Gross International reserves (in millions of U.S. dollars) 6/	1,856	1,468	1,621	1,680	1,745	1,856	2,069	2,196	2,320
Gross reserves (months of next year imports, eop)	4.7	3.7	3.8	3.8	3.8	3.8	4.0	4.1	4.1
External public debt outstanding (in percent of GDP)	50.6	63.6	71.8	60.7	63.0	64.4	63.1	61.1	59.4
External public debt service-to-export ratio (in percent)	3.5	4.9	7.2	5.4	5.5	6.1	5.9	5.7	6.0
Memorandum items:									
Exchange rate (soms per U.S. dollar, average)	53.7	64.4	...	...	...	...	...	...	...
Real effective exchange rate (2010=100) (average)	107.25	106.3	...	...	...	...	...	...	...
Gold related tax receipts of the general government (in percent of GDP)	1.2	1.4	...	...	...	...	...	...	...

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Includes general government and onlending to state owned enetrprises

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

3/ Calculated at end-period exchange rates.

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

5/ As of end-Septemebr 2016.

6/ The US$263 million of reserve assets in nonconvertible currencies were reclassified to other assets at the end-2015 upon the recommendation of the Safeguards Assessment.

Table 2. Kyrgyz Republic: Balance of Payments 2014–21

(In millions of U.S. dollars)

	2014	2015	2016	2017	2018	2019	2020	2021
	Act.				Proj.			
Current account balance 1/	-1,195	-740	-656	-922	-975	-901	-942	-972
Excluding transfers	-3,446	-2,358	-2,396	-2,684	-2,835	-2,807	-2,852	-2,968
Trade balance	-2,808	-1,986	-2,003	-2,314	-2,484	-2,403	-2,428	-2,520
Exports, fob	2,483	1,812	1,831	1,896	1,954	2,274	2,521	2,617
CIS countries	1,481	907	817	853	913	980	1,062	1,136
Of which: Energy products	270	174	184	206	211	227	243	260
Of which: Re-exports of consumer goods	206	136	135	138	149	160	174	198
Non-CIS countries	1,002	905	1,014	1,043	1,041	1,294	1,459	1,481
Of which: Gold	717	665	771	792	773	1,011	1,155	1,159
Imports, fob	5,290	3,798	3,833	4,210	4,438	4,677	4,949	5,137
CIS countries	2,580	2,140	1,976	2,099	2,211	2,321	2,432	2,526
Of which: Energy (including for re-exports)	1,042	703	562	607	666	670	710	728
Non-CIS countries	2,710	1,658	1,857	2,111	2,227	2,356	2,516	2,611
Of which: Goods for re-exports	206	106	105	108	119	130	144	168
Services	-331	-114	-97	-122	-92	-82	-53	-46
Receipts	901	843	822	916	1,015	1,118	1,220	1,301
Payments	-1,231	-957	-919	-1,038	-1,107	-1,200	-1,273	-1,347
Income	-308	-258	-296	-248	-259	-321	-371	-402
Interest payments	-79	-66	-143	-83	-91	-139	-176	-201
Other net income	-229	-192	-153	-165	-167	-183	-194	-200
Current Transfers (net)	2,251	1,618	1,740	1,762	1,860	1,905	1,910	1,996
Of which: Private	2,042	1,515	1,651	1,717	1,786	1,857	1,912	1,998
Capital Account	58	81	216	236	131	103	103	103
Official	53	55	216	236	131	103	103	103
Private	5	26	0	0	0	0	0	0
Financial account	318	416	617	721	941	1,009	964	980
Commercial banks	-1	-152	0	0	0	0	0	0
Medium- and long-term loans (net)	490	178	142	249	322	355	287	284
Disbursement 1/	901	799	658	720	775	812	824	910
Of which: Loan financed PIP (excl. energy investments financed by China)	96	95	88	164	257	210	158	137
Of which: Energy investments financed by China (PIP)	349	154	278	222	99	139	181	158
Amortization	-411	-621	-516	-471	-453	-457	-537	-625
Foreign direct investment 2/	233	1,009	532	489	519	554	576	595
Portfolio investment	0	-129	0	0	0	0	0	0
Other (including SDR allocation) 3/	0	-263	0	0	0	0	0	0
Net short-term flows	-380	1	-208	-168	100	100	100	100
Errors and omissions	568	-89	0	0	0	0	0	0
Overall balance	-251	-332	176	34	97	211	124	110
Financing 4/	251	332	-176	-34	-97	-211	-124	-110
Net international reserves	251	332	-220	-91	-140	-241	-154	-140
Gross official reserves (–, increase)	257	320	-212	-65	-111	-212	-127	-124
IMF	-6	11	-8	-26	-29	-28	-27	-16
Exceptional financing (including arrears)	0	0	30	30	30	30	30	30
Financing gap	0	0	13	27	13	0	0	0
Memorandum items:								
GDP (in millions of U.S. dollars)	7,465	6,758	6,554	6,768	7,085	7,560	8,021	8,437
Current account balance (percent of GDP)	-16.0	-10.9	-10.0	-13.6	-13.8	-11.9	-11.7	-11.5
Current account balance excluding official transfers (percent of GDP) 1/	-18.8	-12.5	-11.4	-14.3	-14.8	-12.6	-11.7	-11.5
Growth of exports of GNFS (volume, percent)	-19.4	-10.0	1.7	-0.2	4.6	11.8	8.5	2.2
Growth of imports of GNFS (volume, percent)	7.6	-13.2	6.7	5.8	4.6	4.6	5.2	2.2
Terms of trade (goods, percentage change)	0.9	7.8	4.7	-0.7	-0.3	-0.1	0.2	-0.5
Gold price (U.S. dollars per ounce)	1,266	1,160	1,282	1,357	1,374	1,398	1,422	1,447
Fuel Price Index (2005=100)	176.9	97.6	81.1	93.8	97.5	99.6	102.6	104.8
External Public Debt (in millions of U.S. dollars) 5/	3,440	3,606	3,921	4,246	4,493	4,703	4,827	4,936
As percent of GDP	50.6	63.6	60.7	63.0	64.4	63.1	61.1	59.4
External public debt service-to-exports ratio 5/ 6/	3.5	4.9	5.4	5.5	6.1	6.0	5.8	5.9
Gross reserves 3/ 7/	1,856	1,468	1,680	1,745	1,856	2,069	2,196	2,320
In months of subsequent year's imports	4.7	3.7	3.8	3.8	3.8	4.0	4.1	4.1

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Includes IMF and identified budget support.

2/ Includes return of RKDF investments abroad.

3/ The US$263 million of reserve assets in non-convertible currencies were reclassified to other assets at the end-2015 upon the recommendation of the Safeguards Assessment.

4/ Projected IMF financing.

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, 2014–17

	2014	2015	2016				2017			
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
	Act.	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In millions of soms)									
Net foreign assets	104,770	123,167	125,149	124,916	124,144	120,211	120,094	125,420	127,868	130,240
Net international reserves 1/	105,936	108,490	119,230	119,420	118,574	115,437	114,771	119,834	122,299	125,466
Long-term foreign liabilities	-7,233	-8,929	-8,379	-8,116	-8,133	-8,929	-8,379	-8,116	-8,133	-8,929
Other foreign assets 1/	6,068	23,606	14,298	13,611	13,702	13,702	13,702	13,702	13,702	13,702
Net domestic assets	-40,298	-56,112	-58,985	-49,019	-43,919	-34,555	-33,718	-34,091	-35,557	-36,272
Net claims on general government	-18,191	-13,714	-17,611	-10,913	-9,410	-6,639	1,125	182	-1,994	-5,166
Of which: Total government deposits (including foreign exchange deposits)	-19,618	-15,105	-18,999	-12,083	-10,584	-7,813	-49	-992	-3,167	-6,340
Of which: Securitized government debt	1,454	1,402	1,399	1,181	1,184	1,184	1,184	1,184	1,184	1,184
Claims on commercial banks	1,309	-2,204	-9,067	-9,710	-9,863	-6,658	-9,612	-5,415	-1,704	1,100
Of which: NBKR notes	-1,326	-2,126	-1,999	-5,984	-2,000	-2,627	-5,581	-3,563	-3,075	-3,454
Claims of other financial corporations	0	-4,364	-6,562	-6,293	-1,870	1,630	-1,896	-5,093	-7,956	-7,956
Other items net	-23,416	-35,829	-25,744	-22,103	-22,777	-22,888	-23,334	-23,764	-23,903	-24,250
Reserve money	64,472	67,055	66,163	75,897	80,225	85,656	86,376	91,329	92,312	93,968
Currency in circulation	57,075	58,398	57,495	65,951	70,606	73,664	74,197	78,360	79,065	80,342
Commercial banks' reserves	7,397	8,657	8,669	9,946	9,619	11,992	12,179	12,969	13,247	13,625
Of which: Required reserves	6,693	8,225	7,517	7,321	7,262	8,394	8,525	9,078	9,273	9,538
	(Contribution to reserve money growth, in percent) 2/									
Net foreign assets	6.6	28.5	3.0	2.6	1.5	-4.4	-0.1	6.1	8.9	11.7
Net domestic assets	-18.5	-24.5	-4.3	10.6	18.2	32.1	1.0	0.5	-1.2	-2.0
Of which: Net claims on general government	-15.3	6.9	-5.8	4.2	6.4	10.6	9.1	8.0	5.4	1.7
Reserve money	-11.9	4.0	-1.3	13.2	19.6	27.7	0.8	6.6	7.8	9.7
Of which: Currency in circulation	-13.5	2.1	-1.3	11.3	18.2	22.8	0.6	5.5	6.3	7.8
Memorandum items:										
Reserve money growth (12-month change, in percent)	-11.9	4.0	17.2	19.4	20.5	27.7	30.5	20.3	15.1	9.7
Gross International Reserves (in millions of U.S. dollars) 1/	1,856	1,468.3	1,742	1,802	1,778	1,680	1,652	1,704	1,720	1,745
Net international reserves (in millions of U.S. dollars) 1/	1,669	1,280	1,552	1,605	1,581	1,472	1,449	1,495	1,517	1,535
Exchange rate, som per U.S. dollar, end of period	58.9	75.9	70.0	67.5	67.9					

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ The US$263 million of reserve assets in nonconvertible currencies were reclassified to other assets at the end-2015 upon the recommendation of the Safeguards Assessment.

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

Table 4. Kyrgyz Republic: Monetary Survey, 2014–17

	2014	2015	2016				2017			
	Dec.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.
	Act.	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In millions of soms)									
Net foreign assets	108,590	134,500	127,683	130,064	134,375	131,544	131,427	136,753	139,201	141,573
Net domestic assets	15,955	8,643	7,764	16,753	21,924	34,628	39,166	41,338	43,576	45,423
Domestic credit	61,317	79,223	71,527	77,752	80,748	87,763	92,747	95,349	97,725	99,920
Net claims on general government	-20,831	-17,021	-21,706	-14,460	-13,035	-9,968	-2,478	1,440	-1,377	-8,737
Credit to the rest of the economy 1/	82,148	96,245	93,233	92,213	93,783	97,731	95,225	93,910	99,103	108,657
Of which: In foreign exchange	45,464	51,711	42,711	39,931	39,998	41,681	40,374	39,582	41,523	45,254
Other items net	-45,363	-70,580	-63,763	-60,999	-58,823	-53,135	-53,581	-54,011	-54,149	-54,497
Broad money (M2X)	124,544	143,143	135,446	146,817	156,299	166,172	170,592	178,091	182,777	186,995
Of which:										
Broad money, excluding foreign exchange deposits (M2)	82,386	82,267	85,043	99,373	106,670	111,822	114,368	120,168	122,856	125,635
Currency held by the public	51,904	53,118	52,883	61,204	64,902	68,096	68,582	72,424	73,065	74,234
Total domestic currency deposit liabilities	30,482	29,149	32,161	38,169	41,769	43,725	45,785	47,744	49,791	51,400
	(Contribution to broad money growth, in percent) 2/									
Net foreign assets	2.4	20.8	23.2	15.9	13.0	-2.1	-0.1	3.1	4.6	6.0
Net domestic assets	0.6	-5.9	-0.6	5.7	9.3	18.2	2.7	4.0	5.4	6.5
Domestic credit	10.3	14.4	-5.4	-1.0	1.1	6.0	3.0	4.6	6.0	7.3
Net claims on general government	-10.4	3.1	-4.8	2.6	4.0	7.2	4.5	6.9	5.2	0.7
Credit to the rest of the economy	20.6	11.3	-2.1	-2.8	-1.7	1.0	-1.5	-2.3	0.8	6.6
Other items (net)	-9.6	-20.2	4.8	6.7	8.2	12.2	-0.3	-0.5	-0.6	-0.8
Broad money (M2X)	3.0	14.9	-5.4	2.6	9.2	16.1	2.7	7.2	10.0	12.5
Of which:										
Broad money, excluding foreign exchange deposits (M2)	-7.1	-0.1	1.9	12.0	17.0	20.6	1.5	5.0	6.6	8.3
Currency held by the public	-8.3	1.0	-0.2	5.6	8.2	10.5	0.3	2.6	3.0	3.7
Total deposit liabilities	1.2	-1.1	2.1	6.3	8.8	21.1	1.2	2.4	3.7	4.6
Memorandum items:										
Broad money (M2X) (12-month change, in percent)	3.0	14.9	13.1	16.7	15.2	16.1	25.9	21.3	16.9	12.5
Credit to the rest of the economy (12-month change, in percent) 1/	43.6	17.2	1.3	1.4	-1.9	1.5	2.1	1.8	5.7	11.2
Credit growth FX portion in dollar terms (12-month change, in percent)	30.7	-11.8	-19.4	-22.4	-20.8	…	…	…	…	…
Credit growth FX portion in som term(12-month change, in percent)	55.7	13.7	-11.7	-14.9	-21.8	…	…	…	…	…
Credit growth som protion (12-month change, in percent)	31.1	21.4	15.8	18.7	21.0	…	…	…	…	…
Real credit growth, (12-month change, in percent)	33.2	13.8	0.8	0.1	-2.4	…	…	…	…	…
Credit growth in constant exchange rate—DEC 2013 (12-month change, in percent)	30.9	4.5	-0.5	-0.3	2.1	…	…	…	…	…
Credit to the rest of the economy (in percent of GDP)	20.7	22.4	20.6	20.4	20.7	21.6	19.6	19.3	20.4	22.3
M2X velocity 3/	3.2	3.0	3.3	3.1	2.8	2.7	2.9	2.7	2.7	2.6
M2X multiplier	1.9	2.1	2.0	1.9	1.9	1.9	2.0	2.0	2.0	2.0
Dollarization indicators (in percent)										
Loan dollarization	55.3	53.7	45.8	43.3	42.6	42.6	42.4	42.1	41.9	41.6
Deposit dollarization	58.0	67.6	61.0	55.4	55.4	55.4	55.1	54.8	54.6	54.4

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ One MFI got banking liscence in March 2015, and another in January 2016. It also includes RKDF's lending via banks - expected to mostly materilize in Q4 2016.

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

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

Table 5. Kyrgyz Republic: General Government Finances, 2015–18

(In millions of soms)

	2015	2016					2017					2018
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Year
	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue 1/	153,045	40,401	38,635	38,458	54,296	171,789	35,398	41,902	44,934	54,061	176,295	183,413
Taxes	82,234	20,175	22,508	24,001	31,099	97,783	20,031	23,021	28,090	35,512	106,653	114,696
Taxes on income, profits, and capital gains	21,773	5,227	4,642	5,420	10,828	26,117	6,546	5,935	7,099	9,514	29,094	31,855
Payable by individuals	9,514	2,237	2,513	2,563	5,005	12,318	3,547	3,216	3,847	5,155	15,765	18,335
Payable by corporations and other enterprises	9,813	2,351	1,487	2,180	6,180	12,198	2,601	2,465	2,723	3,915	11,704	12,046
Other income taxes	2,446	639	642	677	-357	1,602	398	254	529	444	1,626	1,474
Taxes on property	2,286	601	554	913	4	2,073	453	410	491	658	2,012	2,181
Property Tax	1,332	346	319	648	-194	1,119	217	196	235	315	963	1,027
Land Tax	954	255	235	266	198	954	236	214	256	343	1,049	1,154
Taxes on goods and services	48,486	11,424	13,937	13,922	17,202	56,485	11,565	14,194	15,961	19,469	61,189	65,433
General taxes on goods and services	40,729	9,667	11,715	11,542	13,982	46,905	9,875	12,174	13,281	15,859	51,188	54,889
Value-added taxes	33,221	7,855	9,974	10,202	10,446	38,477	7,784	9,802	10,628	12,970	41,183	44,164
Excises	7,757	1,757	2,222	2,381	3,220	9,580	1,690	2,020	2,680	3,610	10,000	10,544
Taxes on international trade and transactions	9,684	2,922	3,376	3,693	3,035	13,026	1,386	2,408	4,452	5,754	13,999	14,800
Other Taxes	4	0	0	54	29	83	81	73	88	117	359	427
Social contributions	24,106	5,655	6,876	6,133	6,972	25,637	6,994	7,222	6,781	6,938	27,935	29,937
Grants	8,975	5,710	3,051	3,039	7,963	19,762	3,914	4,800	4,155	6,020	18,889	13,681
Program grants	6,749	2,969	275	372	2,659	6,276	123	980	307	1,974	3,384	5,533
Project grants 2/	2,225	2,740	2,776	2,667	5,303	13,486	3,791	3,820	3,848	4,046	15,505	8,148
Other revenue	37,731	8,861	6,200	5,284	8,262	28,607	4,459	6,859	5,908	5,591	22,818	25,099
Expense	129,467	30,340	38,847	31,918	45,694	146,799	35,108	39,435	33,563	40,346	148,451	154,105
Compensation of employees	39,612	8,654	14,754	8,128	13,897	45,433	11,872	13,881	9,999	11,381	47,133	44,971
Wages and salaries	35,103	7,698	12,954	7,276	12,182	40,110	10,528	12,310	8,868	10,094	41,799	39,975
Social contributions	4,509	956	1,800	852	1,716	5,323	1,343	1,571	1,131	1,288	5,333	4,997
Purchases/use of goods and services	30,529	6,068	8,026	8,198	16,222	38,514	6,693	8,297	8,091	10,952	34,033	35,983
Consumption of fixed capital	0	0	0	0	0	0	0	0	0	0	0	0
Interest	4,028	1,419	1,093	1,302	1,384	5,199	1,386	1,507	1,528	1,586	6,006	5,878
Foreign interest	2,753	958	690	825	826	3,300	955	955	955	955	3,820	4,177
Domestic interest	1,274	461	403	477	558	1,899	431	552	573	631	2,187	1,701
Subsidies	3,518	1,129	1,137	1,229	199	3,694	1,081	1,129	746	833	3,789	4,040
To public corporations	3,518	1,129	1,137	1,229	199	3,694	1,081	1,129	746	833	3,789	4,040
To private entities	0	0	0	0	0	0	0	0	0	0	0	0
Grants	256	116	72	106	-23	272	0	81	60	142	283	304
To foreign governments	0	0	0	0	0	0	0	0	0	0	0	0
To international organizations	256	116	72	106	-23	272	0	81	60	142	283	304
To other general government units	0	0	0	0	0	0	0	0	0	0	0	0
Social benefits	51,524	12,954	13,764	12,955	14,015	53,689	14,076	14,540	13,140	15,452	57,208	62,928
Social Assistance	10,847	2,523	3,047	2,398	3,529	11,497	3,493	3,570	2,350	2,552	11,965	12,879
Social security benefits	40,677	10,432	10,717	10,557	10,486	42,191	10,583	10,970	10,790	12,900	45,243	50,048
Gross operating balance	23,577	10,061	-212	6,539	8,602	24,989	290	2,467	11,371	13,715	27,844	29,308
Net acquisition of nonfinancial assets	28,532	7,233	12,197	7,178	18,538	45,145	9,982	10,325	10,854	11,163	42,324	37,461
Acquisition of nonfinancial assets	28,674	7,279	12,197	7,357	18,438	45,271	10,263	10,595	10,989	10,612	42,459	37,605
Domestically financed	18,327	1,469	4,109	4,204	11,548	21,330	2,834	3,166	3,560	3,182	12,742	15,752
Foreign financed 2/	10,346	5,810	8,087	3,153	6,890	23,940	7,429	7,429	7,429	7,429	29,717	21,853
Disposals of nonfinancial assets	-142	-46	0	-179	100	-125	-281	-270	-135	551	-135	-144
Net lending/borrowing	-4,954	2,827	-12,409	-638	-9,936	-20,156	-9,691	-7,858	517	2,552	-14,480	-8,153
Net acquisition of financial assets	4,974	5,126	-6,002	-1,052	6,479	4,550	-3,638	5,434	6,668	5,711	14,175	14,057
Domestic	4,974	5,126	-6,002	-1,052	6,479	4,550	-3,638	5,434	6,668	5,711	14,175	14,057
Currency and deposits	-3,645	4,952	-10,098	-1,636	-4,412	-11,194	-7,490	1,582	2,817	1,860	-1,231	1,625
Loans	8,632	218	4,098	588	10,854	15,758	3,855	3,855	3,855	3,855	15,421	12,447
Sales of equity (privatization proceeds)	-13	-45	-3	-3	37	-14	-4	-4	-4	-4	-14	-15
Foreign	0	0	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	12,171	2,389	9,647	-591	12,313	23,758	5,573	12,812	5,672	2,680	26,737	22,088
Domestic	-933	485	0	0	-485	0	0	5,500	0	-5,500	0	0
Foreign	13,104	1,904	9,647	-591	12,799	23,758	5,573	7,312	5,672	8,180	26,737	22,088
Program loans	1,791	0	1,661	0	2,690	4,351	0	1,749	119	2,697	4,565	2,930
Public investment program loans	15,859	3,516	9,211	847	11,690	25,264	6,929	6,929	6,929	6,929	27,714	26,029
Amortization	-4,545	-1,612	-1,226	-1,438	-1,581	-5,857	-1,355	-1,365	-1,376	-1,446	-5,543	-6,871

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Mineral fees are now classified under other revenue. They were previously classified under taxes.

Table 6. Kyrgyz Republic: General Government Finances, 2015–18

(In percent of GDP)

	2015	2016					2017					2018
	Year Proj.	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Year Proj.	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Year Proj.	Year Proj.
Revenue 1/	35.6	8.9	8.5	8.5	12.0	38.0	7.3	9.3	9.9	12.0	36.3	35.4
Taxes	19.1	4.5	5.0	5.3	6.9	21.6	4.1	4.7	5.8	7.3	21.9	22.1
Taxes on income, profits, and capital gains	5.1	1.2	1.0	1.2	2.4	5.8	1.3	1.2	1.5	2.0	6.0	6.1
Payable by individuals	2.2	0.5	0.6	0.6	1.1	2.7	0.7	0.7	0.8	1.1	3.2	3.5
Payable by corporations and other enterprises	2.3	0.5	0.3	0.5	1.4	2.7	0.5	0.5	0.6	0.8	2.4	2.3
Other income taxes	0.6	0.1	0.1	0.1	-0.1	0.4	0.1	0.1	0.1	0.1	0.3	0.3
Taxes on property	0.5	0.1	0.1	0.2	0.0	0.5	0.1	0.1	0.1	0.1	0.4	0.4
Taxes on goods and services	11.3	2.5	3.1	3.1	3.8	12.5	2.4	2.9	3.3	4.0	12.6	12.6
General taxes on goods and services	9.5	2.1	2.6	2.6	3.1	10.4	2.0	2.5	2.7	3.3	10.5	10.6
Value-added taxes	7.7	1.7	2.2	2.3	2.3	8.5	1.6	2.0	2.2	2.7	8.5	8.5
Turnover and other taxes on goods and services	1.7	0.0	0.0	0.0	0.0	1.9	0.0	0.0	0.0	0.0	2.1	2.1
Excises	1.8	0.4	0.5	0.5	0.7	2.1	0.3	0.4	0.6	0.7	2.1	2.0
Taxes on international trade and transactions	2.2	0.6	0.7	0.8	0.7	2.9	0.3	0.5	0.9	1.2	2.9	2.9
Other Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Social contributions	5.6	1.3	1.5	1.4	1.5	5.7	1.4	1.5	1.4	1.4	5.7	5.8
Grants	2.1	1.3	0.7	0.7	1.8	4.4	0.8	1.0	0.9	1.2	3.9	2.6
Program grants	1.6	0.7	0.1	0.1	0.6	1.4	0.0	0.2	0.1	0.4	0.7	1.1
Project grants 2/	0.5	0.6	0.6	0.6	1.2	3.0	0.8	0.8	0.8	0.8	3.2	1.6
Other revenue	8.8	2.0	1.4	1.2	1.8	6.3	0.9	1.4	1.2	1.2	4.7	4.8
Expense	30.1	6.7	8.6	7.1	10.1	32.5	7.2	8.1	6.9	8.3	30.5	29.7
Compensation of employees	9.2	1.9	3.3	1.8	3.1	10.1	2.4	2.9	2.1	2.3	9.7	8.7
Wages and salaries	8.2	1.7	2.9	1.6	2.7	8.9	2.2	2.5	1.8	2.1	8.6	7.7
Social contributions	1.0	0.2	0.4	0.2	0.4	1.2	0.3	0.3	0.2	0.3	1.1	1.0
Purchases/use of goods and services	7.1	1.3	1.8	1.8	3.6	8.5	1.4	1.7	1.7	2.3	7.0	6.9
Consumption of fixed capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.9	0.3	0.2	0.3	0.3	1.2	0.3	0.3	0.3	0.3	1.2	1.1
Foreign interest	0.6	0.2	0.2	0.2	0.2	0.7	0.2	0.2	0.2	0.2	0.8	0.8
Domestic interest	0.3	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.1	0.4	0.3
Subsidies	0.8	0.2	0.3	0.3	0.0	0.8	0.2	0.2	0.2	0.2	0.8	0.8
To public corporations	0.8	0.2	0.3	0.3	0.0	0.8	0.2	0.2	0.2	0.2	0.8	0.8
To private entities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1
To foreign governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
To international organizations	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1
To other general government units	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social benefits	12.0	2.9	3.0	2.9	3.1	11.9	2.9	3.0	2.7	3.2	11.8	12.1
Social assistance	2.5	0.6	0.7	0.5	0.8	2.5	0.7	0.7	0.5	0.5	2.5	2.5
Social security benefits	9.4	2.3	2.4	2.3	2.3	9.3	2.2	2.3	2.2	2.7	9.3	9.7
Other Expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating balance	5.5	2.2	0.0	1.4	1.9	5.5	0.1	0.5	2.3	2.8	5.7	5.7
Net acquisition of nonfinancial assets	6.6	1.6	2.7	1.6	4.1	10.0	2.1	2.1	2.2	2.3	8.7	7.2
Acquisition of nonfinancial assets	6.7	1.6	2.7	1.6	4.1	10.0	2.1	2.2	2.3	2.2	8.7	7.3
Domestically financed	4.3	0.3	0.9	0.9	2.6	4.7	0.6	0.7	0.7	0.7	2.6	3.0
Foreign financed 2/	2.4	1.3	1.8	0.7	1.5	5.3	1.5	1.5	1.5	1.5	6.1	4.2
Disposals of nonfinancial assets	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	0.1	0.0	0.0
Net lending/borrowing	-1.2	0.6	-2.7	-0.1	-2.2	-4.5	-2.0	-1.6	0.1	0.5	-3.0	-1.6
Net acquisition of financial assets	1.2	1.1	-1.3	-0.2	1.4	1.0	-0.7	1.1	1.4	1.2	2.9	2.7
Domestic	1.2	1.1	-1.3	-0.2	1.4	1.0	-0.7	1.1	1.4	1.2	2.9	2.7
Currency and deposits	-0.8	1.1	-2.2	-0.4	-1.0	-2.5	-1.5	0.3	0.6	0.4	-0.3	0.3
Loans	2.0	0.0	0.9	0.1	2.4	3.5	0.8	0.8	0.8	0.8	3.2	2.4
Sales of equity (privatization proceeds)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	2.8	0.5	2.1	-0.1	2.7	5.3	1.1	2.6	1.2	0.6	5.5	4.3
Domestic	-0.2	0.1	0.0	0.0	-0.1	0.0	0.0	1.1	0.0	-1.1	0.0	0.0
Foreign	3.0	0.4	2.1	-0.1	2.8	5.3	1.1	1.5	1.2	1.7	5.5	4.3
Program loans	0.4	0.0	0.4	0.0	0.6	1.0	0.0	0.4	0.0	0.6	0.9	0.6
Public investment program loans	3.7	0.8	2.0	0.2	2.6	5.6	1.4	1.4	1.4	1.4	5.7	5.0
Amortization	-1.1	-0.4	-0.3	-0.3	-0.3	-1.3	-0.3	-0.3	-0.3	-0.3	-1.1	-1.3

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Mineral fees are now classified under other revenue. They were previously classified under taxes.

2/ Including grants in-kind from EEU accession.

Table 7. Kyrgyz Republic: Selected Financial Soundness Indicators, 2014–16

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
Capital Adequacy											
Regulatory capital to risk weighted assets	23.9	22.1	22.5	21.8	20.7	20.9	21.5	22.4	24.3	24.5	24.5
Tier 1 capital to risk weighted assets	20.6	18.2	17.7	16.4	17.8	17.6	17.4	18.1	21.8	21.7	21.2
Capital to total assets	16.9	16.3	16.7	16.2	15.4	15.7	15.7	15.6	16.3	16.5	16.4
Liquidity											
Liquidity ratio	67.3	56.8	55.1	65.1	67.5	64.7	70.5	77.8	82.7	79.9	77.0
Excess reserves/total reserves	16.0	7.4	7.3	8.3	4.2	20.5	7.2	3.2	7.1	17.0	10.0
Asset quality											
Nonperforming loans/total loans	5.4	4.6	4.2	4.5	5.4	5.2	6.0	7.1	8.5	9.0	9.0
Restructured Loans	2.2	1.7	1.9	2.2	3.6	4.3	5.3	7.7	11.5	11.0	8.2
Prolonged Loans	3.8	3.5	3.4	3.0	2.4	2.9	3.6	5.0	6.2	6.8	6.3
Nonperforming loans by sector (share of total loans)											
Industry	0.9	0.7	0.5	0.5	0.5	0.4	0.5	0.6	0.7	0.7	0.6
Agriculture	0.2	0.2	0.2	0.2	0.3	0.5	0.6	0.7	0.8	0.9	1.0
Trade	1.9	1.6	1.6	1.7	2.3	2.3	2.6	3.1	3.6	3.7	3.8
Construction	0.8	0.7	0.6	0.7	0.7	0.3	0.3	0.2	0.4	0.5	0.5
Mortgage	0.5	0.4	0.4	0.4	0.4	0.5	0.7	0.8	1.0	1.0	1.0
Consumer loans	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.4	0.5	0.5	0.5
Other	0.9	0.8	0.7	0.8	1.0	0.9	1.0	1.3	1.6	1.7	1.6
Nonperforming loans by currency (share of total loans)											
Foreign currency nonperforming loans	4.1	3.5	3.1	3.4	4.1	3.8	4.3	5.1	5.7	5.8	5.7
Som nonperforming loans	1.3	1.1	1.1	1.1	1.3	1.5	1.76	2.0	2.8	3.2	3.3
Loan-loss provisioning/nonperforming loans	59.8	61.0	61.3	58.8	53.7	54.0	54.1	53.4	54.7	54.7	55.8
Nonperforming assets/total assets	2.8	2.5	2.4	2.6	3.1	3.0	3.4	3.8	4.5	4.7	4.7
Earnings and profitability											
Return on equity	15.7	16.0	18.6	18.7	15.3	11.5	13.3	10.8	-1.6	0.1	1.9
Return on assets	2.4	2.4	2.7	2.6	2.2	1.6	1.8	1.5	-0.2	0.0	0.3
Net interest margin	7.9	8.1	8.4	8.3	8.3	8.3	8.1	7.8	7.0	6.9	7.0
Spread	7.4	7.7	8.0	7.9	7.7	7.8	7.5	7.1	6.3	6.1	6.3
Income from services and commission fee/total income	12.0	13.1	13.9	14.0	8.1	8.7	8.0	8.3	5.2	6.4	5.9
Loans and deposits											
Loans/deposits	100.1	104.2	109.4	109.7	118.3	117.5	111.5	100.7	105.5	101.4	96.5
Loans/total assets	52.5	54.9	57.3	58.3	57.7	58.1	56.8	53.0	52.4	52.1	51.8
Foreign currency exposure											
Foreign currency exposure	780.3	1,669.8	2,218.1	1,816.0	626.0	242.4	1,704.8	-578.0	-511.8	142.8	445.3
Loans/deposits (in foreign currency)	95.6	101.3	104.5	107.9	100.3	95.7	90.0	80.3	78.1	77.9	74.6
Share of foreign currency deposits in total deposits 1/	57.0	53.7	58.0	58.6	64.1	64.5	68.3	69.1	63.3	57.5	56.3
Share of foreign currency loans in total loans	54.4	52.2	55.4	57.6	54.3	52.6	55.2	55.1	46.9	44.2	43.5
Memorandum items:											
Assets to GDP	32.8	33.4	33.7	33.9	37.6	36.4	38.9	41.7	41.2	40.6	40.1
Deposits to GDP	17.2	17.6	17.7	18.0	18.3	18.0	19.8	21.9	20.5	20.9	21.5

Source: National Bank of the Kyrgyz Republic.

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

Table 8. Kyrgyz Republic: Proposed Reviews and Disbursements Under the Three-Year Extended Credit Facility Arrangement

Availability Date	Action	Associated Disbursement	Share of Access (In percent)
On April 8, 2015	First disbursement based on approval of the three-year ECF arrangement.	SDR 9.514 million	14.3
On December 4, 2015	Second disbursement based on completion of the first review.	SDR 9.514 million	14.3
On June 17, 2016	Third disbursement based on completion of the second review.	SDR 9.514 million	14.3
On October 5, 2016	Fourth disbursement based on completion of the third review.	SDR 9.514 million	14.3
On April 4, 2017	Fifth disbursement based on completion of the fourth review.	SDR 9.514 million	14.3
On October 3, 2017	Sixth disbursement based on completion of the fifth review.	SDR 9.514 million	14.3
On April 2, 2018	Seventh disbursement based on completion of the sixth review.	SDR 9.516 million	14.3
Total		SDR 66.600 million	100.0

Source: International Monetary Fund.

Table 9. Kyrgyz Republic: Indicators of Capacity to Repay the Fund, 2016–21 1/

	2016	2017	2018	2019	2020	2021
Fund obligations based on existing credit						
(In millions of SDRs)						
Principal	5.7	18.3	20.7	17.5	18.7	17.1
Charges and interest	0.0	0.0	0.0	0.2	0.2	0.1
Fund obligations based on existing and prospective credit						
(In millions of SDRs)						
Principal	5.7	18.3	20.7	17.5	18.7	17.1
Charges and interest	0.0	0.0	0.0	0.2	0.2	0.1
Total obligations based on existing and prospective credit						
In millions of SDRs	5.7	18.3	20.7	17.7	18.9	17.3
In millions of U.S. dollars	8.0	25.7	29.2	25.1	26.7	24.4
In percent of gross international reserves	0.5	1.5	1.6	1.2	1.2	1.1
In percent of exports of goods and services	0.3	0.9	1.0	0.7	0.7	0.6
In percent of debt service 2/	5.5	16.5	16.2	12.5	12.5	10.4
In percent of GDP	0.1	0.4	0.4	0.3	0.3	0.3
In percent of quota	6.4	20.6	23.3	20.0	21.3	19.4
Outstanding Fund credit 2/						
In millions of SDRs	139.9	140.6	129.5	112.0	93.2	76.1
In billions of U.S. dollars	0.2	0.2	0.2	0.2	0.1	0.1
In percent of gross international reserves	11.6	11.4	9.9	7.7	6.0	4.7
In percent of exports of goods and services	7.4	7.0	6.1	4.7	3.5	2.7
In percent of debt service 2/	136.1	126.6	101.3	78.9	61.6	45.9
In percent of GDP	3.0	2.9	2.6	2.1	1.6	1.3
In percent of quota	157.5	158.4	145.8	126.1	105.0	85.7
Net use of Fund credit (in millions of SDRs)	3.8	(8.8)	-15.9	-17.5	-18.7	-17.1
Disbursements	9.5	9.5	4.8	-	-	-
Repayments and Repurchases	5.7	18.3	20.7	17.5	18.7	17.1
Memorandum items:						
Nominal GDP (in millions of U.S. dollars)	6,554	6,768	7,085	7,560	8,021	8,437
Exports of goods and services (in millions of U.S. dollars)	2,653	2,812	2,969	3,392	3,741	3,918
Gross International Reserves (in millions of U.S. dollars)	1,681	1,736	1,847	2,059	2,187	2,311
Debt service (in millions of U.S. dollars) 2/	143.8	156.0	180.1	200.8	214.5	234.5
Quota (millions of SDRs)	88.8	88.8	88.8	88.8	88.8	88.8

Sources: IMF staff estimates and projections.

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

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

Table 10. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, June 2016–December 2017

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

	2016							2017			
	June				September	December		March	June	September	December
	QPC				IT	QPC		IT	QPC	IT	QPC
	2nd review	Adj.	Actual	Status	2nd review	2nd review	3rd review				
Quantitative performance criteria 1/											
1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars)	1,235	1,288	1,425	Met	1,164	1,110	1,418	1,346	1,347	1,329	1,347
2. Ceiling on net domestic assets of the NBKR (eop stock)	-22,625	-24,625	-28,090	Met	-23,688	-18,523	-9,587	-7,546	-5,388	-5,746	-5,199
3. Ceiling on cumulative overall deficit of the general government 2/	12,108	11,609	9,582	Met	15,602	20,492	20,156	9,691	17,549	17,032	14,480
4. Present value of new external debt contracted or guaranteed (continuous, in millions of U.S. dollars)	220		138	Met	220	220	287	311	311	311	311
5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0		0	Met	0	0	0	0	0	0	0
Indicative Targets 1/											
1. Ceiling on reserve money	75,915		75,897	Met	74,213	76,092	85,656	86,376	91,329	92,312	93,968
2. Cumulative floor on state government tax collections 2/	41,739		43,046	Met	67,862	99,153	97,783	20,031	43,051	71,142	106,653
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit and Monthly Social Benefit programs 2/	2,377		2,729	Met	3,615	5,417	5,322	1,339	2,678	4,017	5,557
4. Ceiling on new nonconcessional external debt contracted or guaranteed by public sector (continuous, in millions of U.S. dollars) 3/	0		0	Met	0	0	0	0	0	0	0
5. Ceiling on introducing new and renewal of existing tax exemptions	…		…	na	…	…	0	0	0	0	0

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ As defined in the TMU.

2/ Cumulative from the beginning of the year.

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

4/ Includes mineral development fees.

Table 11. Kyrgyz Republic: Prior Action and Structural Benchmarks Under the Extended Credit Facility

Measures	Timing	Status
Prior Action		
Unify foreign exchange collateral requirements for the loans of the NBKR for all entities using NBKR's credit facilities.	5 business days prior to the board meeting	
Structural Benchmarks		
I. FISCAL POLICY		
Undertake a review of the public investment framework in cooperation with development partners and line ministries to identify gaps and then define an action plan.	End-April, 2016	**Met**
Draw an action plan for the reform of public sector personnel and remuneration policy to reduce the wage bill as a share of GDP.	End-May, 2016	**Met**
Review the methodology for setting power tariffs to ensure economic soundness and adjust accordingly the roadmap for increasing tariffs.	End-June, 2016	**Met**
Sign a Memorandum of Co-operation with TIKA, the Turkish Cooperation and Coordination Agency, to develop new Financial Management Information System.	End-June, 2016	**Met**
Revise the MDTS in light of the outcome of the new DSA.	End-July	**Met**
Conduct a review of all subsidies and draw up an action plan to reduce them.	End-September, 2016	**Not met**
Modify through government decree the decision making process for the selection of public investment projects by formalizing gate keeping roles of the MoE on evaluation, including economic assessment and project efficiency, and MoF on financing respectively. The PIP guidelines will be updated accordingly.	End-December, 2016	**Met**
Set up a comprehensive register of all employees of the general government.	End-March, 2017	
Relying on the action plan to reform personnel and remuneration policy, identify quantitative measures to reduce the wages bill to 8.7 percent of GDP in 2018.	End-May, 2017	**New**
Sign the FMIS terms of reference.	End-May, 2017	
Finalize the review and the action plan to reduce subsidies.	End-July, 2017	**New**
Introduce a standardized framework for project monitoring of physical and financial performance for all projects exceeding KGS 50 million.	End-June, 2017	
Sign the contract with the IT provider for the FMIS project.	End-September, 2017	**New**
II. FINANCIAL SECTOR		
Enact and publish in the Official Gazette ("Erkin-Too") the Banking Law and the supporting law on "enactment of the Banking Law"	End-September, 2016	**Not met**
DEBRA to submit to the courts requests for liquidating the following banks: "Bishkek", "Mercury", "Kurulush-bank", and "Adil" banks.	End-September, 2016	**Met**
Develop a crisis preparedness framework, including establishing a high-level financial stability council comprised of representatives of the NBKR, DPA, ministry of finance, and prime minister's office.	End-September, 2016	**Met**
Develop a strategic plan for supervision with the following components:	End-December, 2016	
(i) personnel policy to attract and retain qualified personnel, and decrease personnel turnover rate;		
(ii) training of supervisors to ensure that staff is familiar with the NBKR's supervisory approach and to improve their technical ability;		
(iii) enhancing the supervisory approach, including implementation of the risk-based supervision;		
(iv) strengthening the current regulatory framework and bringing it line with international standards.		
Approve by the NBKR Board regulations for:	End-March, 2017	**New**
(i) classifying restructured loans, which will result in abolishing the prolonged loans category;		
(ii) refinancing of classified loans.		
DEBRA to submit to the courts requests for liquidating the following banks: "Kyrgyzagroprombank" banks, "Manas", "Issyk-Kul", and "AUB" banks.	End-March, 2017	
Circulate to ministries for review amendments to the Banking Law to reintroduce the missing provisions regarding: (i) governance and oversight, including the NBKR's Board composition; (ii) judicial review and nonsuspension of the NBKR's decisions; (iii) powers of the NBKR in the resolution process and liquidation process; and (iv) lending to non-supervised institutions.	End-April, 2017	**New**
Revise and enact regulations to preserve the main requirement for lending to related parties.	End-May, 2017	**New**
Submit to Parliament amendments to the Banking Law to reintroduce the missing provisions regarding: (i) governance and oversight, including the NBKR's Board composition; (ii) judicial review and nonsuspension of the NBKR's decisions; (iii) powers of the NBKR in the resolution process and liquidation process; and (iv) lending to non-supervised institutions.	End-July, 2017	**New**
Enact and publish in the official gazette amendments to the Banking Law to reintroduce the missing provisions regarding: (i) governance and oversight, including the NBKR's Board composition; (ii) judicial review and nonsuspension of the NBKR's decisions; (iii) powers of the NBKR in the resolution process and liquidation process; and (iv) lending to non-supervised institutions.	End-December, 2017	**New**

Table 12a. Kyrgyz Republic: Actual Borrowing Program
(January 1- September 30, 2016)

PPG external debt	Volume of new debt in 2016		PV of new debt in 2016 (program purposes)		PV of new debt in 2016 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
Sources of debt financing	**223.9**	**100**	**138.4**	**100**	**138.4**	**100**
Concessional debt, of which	**223.9**	**100**	**138.4**	**100**	**138.4**	**100**
Multilateral debt	223.9	100	138.4	100	138.4	100
Bilateral debt	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	**0.0**	**0**	**0.0**	**0**	**0.0**	**0**
Semi-concessional	0.0	0	0.0	0	0.0	0
Commercial terms	0.0	0	0.0	0	0.0	0
By Creditor Type	**223.9**	**100**	**138.4**	**100**	**138.4**	**100**
Multilateral	223.9	100	138.4	100	138.4	100
Bilateral - Paris Club	0.0	0	0.0	0	0.0	0
Bilateral - Non-Paris Club	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0
Uses of debt financing	**223.9**	**100**	**138.4**	**100**	**138.4**	**100**
Infrastructure	173.9	78	101.4	73	101.4	73
Social Spending	0.0	0	0.0	0	0.0	0
Budget Financing	50.0	22	37.0	27	37.0	27
Other	0.0	0.0	0.0	0.0	0.0	0.0
Memo items						
Indicative projections						
Year 2	**0.0**		**0.0**		**0.0**	
Year 3	**0.0**		**0.0**		**0.0**	

Table 12b. Kyrgyz Republic: Type of New External Debt
(In millions of U.S. dollars, January 1- September 30, 2016)

By the type of interest rate	
Fixed Interest Rate	173.9
Variable Interest Rate	0.0
Unconventional Loans	50.0
By currency	
USD denominated loans	167.3
Loans denominated in other currency	56.6

Table 12c. Kyrgyz Republic: Projected External Borrowing
(January 1–December 31, 2016)

PPG external debt	Volume of new debt in 2016		PV of new debt in 2016 (program purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	**539.7**	**100**	**287.1**	**100**
Concessional debt, of which	**539.7**	**100**	**287.1**	**100**
Multilateral debt	539.7	100	287.1	100
Bilateral debt	0.0	0	0.0	0
Other	0.0	0	0.0	0
Non-concessional debt, of which	**0.0**	**0**	**0.0**	**0**
Semi-concessional	0.0	0	0.0	0
Commercial terms	0.0	0	0.0	0
By Creditor Type	**539.7**	**100**	**287.1**	**100**
Multilateral	539.7	100	287.1	100
Bilateral - Paris Club	0.0	0	0.0	0
Bilateral - Non-Paris Club	0.0	0	0.0	0
Other	0.0	0	0.0	0
Uses of debt financing	**539.7**	**100**	**287.1**	**100**
Infrastructure	539.7	100	287.1	100
Social Spending	0.0	0	0.0	0
Budget Financing	0.0	0	0.0	0
Other	0.0	0.0	0.0	0.0
Memo Items				
Indicative projections				
Year 2	**0.0**		**0.0**	
Year 3	**0.0**		**0.0**	

Table 12d. Kyrgyz Republic: Type of New External Debt
(In millions of U.S. dollars, January 1–December 31, 2016)

By the type of interest rate	
Fixed Interest Rate	433.5
Variable Interest Rate	106.3
Unconventional Loans	0.0
By currency	
USD denominated loans	203.8
Loans denominated in other currency	336.0

Table 12e. Kyrgyz Republic: Projected External Borrowing Program

(January 1–December 31, 2017)

PPG external debt	Volume of new debt in 2017		PV of new debt in 2017 (program purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	**513.0**	**100**	**311.1**	**100**
Concessional debt, of which	**513.0**	**100**	**311.1**	**100**
Multilateral debt	513.0	100	311.1	100
Bilateral debt	0.0	0	0.0	0
Other	0.0	0	0.0	0
Non-concessional debt, of which	**0.0**	**0**	**0.0**	**0**
Semi-concessional	0.0	0	0.0	0
Commercial terms	0.0	0	0.0	0
By Creditor Type	**513.0**	**100**	**311.1**	**100**
Multilateral	513.0	100	311.1	100
Bilateral - Paris Club	0.0	0	0.0	0
Bilateral - Non-Paris Club	0.0	0	0.0	0
Other	0.0	0	0.0	0
Uses of debt financing	**513.0**	**100**	**311.1**	**100**
Infrastructure	506.4	99	308.0	99
Social Spending	0.0	0	0.0	0
Budget Financing	0.0	0	0.0	0
Other	6.6	1.3	3.1	1.0
Memo Items				
Indicative projections				
Year 2	**0.0**		**0.0**	
Year 3	**0.0**		**0.0**	

Table 12f. Kyrgyz Republic: Type of the New External Debt

(In millions of U.S. dollars, January 1–December 31, 2017)

By the type of interest rate	
Fixed Interest Rate	426.5
Variable Interest Rate	86.5
Unconventional Loans	0.0
By currency	
USD denominated loans	268.4
Loans denominated in other currency	244.6

Annex I. The Spillovers from Lower Oil Prices on the Kyrgyz Economy[1]

Model description. This annex used the IMF's MCDMOD[2] model to assesses the impact of lower oil prices on the Kyrgyz economy. The modelling exercise simulates the combined impact of a permanent 50% drop in global oil prices and a 100 basis-points increase in the Kyrgyz sovereign risk premium on the economy. The calibration of the permanent oil price shock largely corresponds to staff's projections of long-term oil prices. The 100 basis-points increase in sovereign risk premium is a proxy of higher borrowing costs in the economy, under the assumption that the deterioration in the economic outlook means an increase in the number of lenders with elevated credit risk. Higher borrowing costs are applied to both private households and corporations, but also to the government.[3] The combined shock is applied as a historical scenario starting from 2014.

The persistent drop in oil prices has been a dominant shock to the economy. The simulation results give a fair approximation of recent economic developments in the Kyrgyz economy.

Transmission channels. Since the Kyrgyz Republic is an oil importer, the initial impact of the drop in oil prices was positive: lower oil prices increased real disposable income, boosting consumption and output (see Figure AI.1). However, this initial benefit has gradually faded as demand in the large oil-exporting countries in the region (mainly Russia and Kazakhstan) has weakened. Adverse spillovers are being transmitted via both the trade and remittances channels: the deteriorating outlook for exports is hampering private investments and the fall in remittances is dampening consumption. As a result, one year after the initial shock, real GDP growth dropped below the baseline and will likely remain there for at least four more years. CPI inflation initially slowed as a result of the pass-through of lower oil prices and, further, y weak domestic demand. The current account deteriorated due to the decline in remittances, despite a larger decline in imports than exports, resulting in a depreciation of the som. The som depreciation sharply raised the FX public debt level, which elevated credit risks. In principle, an increase in borrowing costs exacerbates the initial impact of the oil price shock, as it further weakens consumption and private investment, and

[1] The model simulations were run by K. Honjo (RES). Annex prepared by Gabor Pula.

[2] The MCDMOD model is a version of the IMF's Flexible System of Global Models (FSGM), which has detailed regional modules including the Middle East and Central Asia. The FSGM is a semi-structured DSGE, which was developed with the aim of modelling spillovers across a large number of countries / regions. The model simulation is run on the CCA import module, which combines the Kyrgyz Republic and Tajikistan.

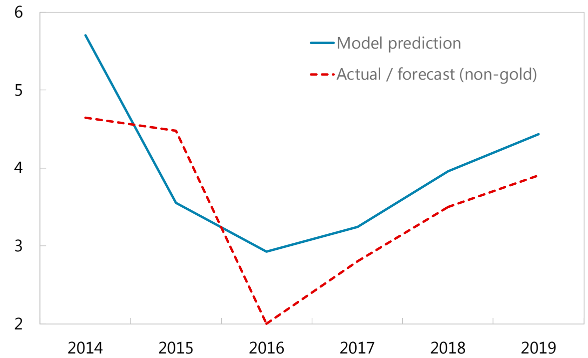
[3] Given that the external financing of the Kyrgyz economy is based on long-term loans from multilateral and bilateral donors at fixed (concessional) rates, an increase in the cost of government borrowing is more realistic under an adverse scenario, where bilateral donors would react to elevated credit risk by providing loans at less concessional financing terms.

(continued)

ultimately GDP growth. The policy rules set in the model assume expansionary monetary and fiscal policies, as reactions to the slowdown in both growth and inflation.[4]

Magnitude of impact. Overall, the model predicts GDP growth to slow to 3 percent by 2016 compared to staff's projection of non-gold GDP growth at 2.4 percent. While the model is fairly adequate in describing GDP growth, it is less accurate in replicating the current account, mainly as it does not incorporate the impact of EEU accession, which had a negative impact on imports and a positive impact on remittances.

Real GDP Growth - Model Prediction vs. Actual
(In percent of GDP)



Sources: Authorities data and staff calcualtions.

Looking ahead, if oil prices remain at their current levels, the recovery of the Kyrgyz Republic's GDP growth is expected to be sluggish. Under the model assumptions of limited policy space, the simulation exercise would predict GDP growth to pick up only gradually and remain below the potential growth rate of 5 percent in the medium-term. (This prediction is in line with staff projections of below historical average growth rates for the Russian and Kazakh economies for the same period). As an upside risk, the model cannot capture the potentially positive impact of EEU membership, which could result in a faster-than-expected recovery in both remittances and exports.

[4] Fiscal policy is implemented via combined policy rule that ensures a long-run stability in the debt-to-GDP ratio and a short-term (countercyclical) automatic stabilization. Monetary policy follows a forward looking inflation targeting with a weight on lagged interest rate, inflation gap, and output gap.

The impact of a combined shock of permanent 50 percent drop in oil prices and 100 basis points increase in sovereign risk premium

(deviation from baseline, percent difference, unless otherwise indicated)

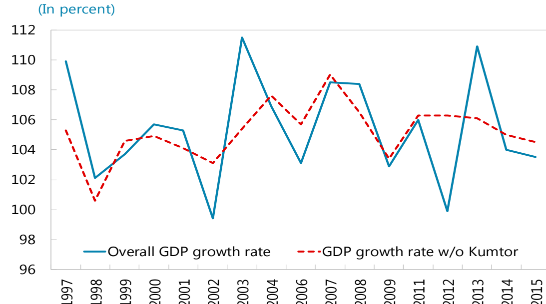
Sources: Authorities data and staff calcualtions.

Annex II. Impact of the Kumtor Gold Mine on Economy[1]

The Kumtor gold mine is an open-pit mine in the Issyk-Kul region. Its operations are conducted at above 4000m, making it the second-highest gold mine in the world. The Kumtor gold deposit was first discovered in 1978, while commercial gold production started in 1997. The initial agreement between Canadian Cameco Corporation (formerly the largest Centerra shareholder) and the Kyrgyz government, signed in 1992, allocated 67 percent of the profit generated by the Kumtor mine to the Kyrgyz Republic. Following the revision of the master agreement in 2007, the Kyrgyz Government and Centerra Corporation signed a new agreement in 2009 giving the Kyrgyz Republic a 33 percent share in Centerra Corporation in exchange for 100 percent of the Kumtor mine. The Kyrgyz Republic has three of the corporation's 11 board members and receives a 13 percent tax on the mine's gross revenues, while a further 1 percent of the mine's gross revenues goes toward the regional development fund. In 2014, the Kyrgyz government initiated negotiations with Centerra to exchange its share in Centerra Inc. for a 50 percent stake in the Kumtor project. Those negotiations are still ongoing. However, the recent acquisition of 92 percent of the Thomson Creek copper and gold mine by Centerra will dilute the Kyrgyz Republic's stake in Centerra Inc. from 32.75 percent to 29.43 percent.

Kumtor adds to the volatility of the Kyrgyz GDP while also having mixed environmental consequences. The volatility stems from the nature of its open-pit, high altitude mining operations. The non-gold growth is less volatile than the overall growth. Standard deviation of the overall GDP growth is almost twice as big as the standard deviation of non-gold GDP growth. Nevertheless, the mean of the overall GDP growth (105.3941) is very close to that of GDP growth adjusted for gold (105.2000). However, due to the enclave nature of the Kumtor project, spillovers to the rest of the economy are limited. Kumtor operations, furthermore, affect the adjacent glaciers, raising concerns for the environment.

Overall GDP Growth Rate and non-Kutor Growth Rate
(In percent)



Sources: Authorities data and staff calculations.

That said, a complete suspension of mine operations would have negative economic, social, and environmental consequences, and would undermine investor confidence quite apart from its contribution to growth of between 6 and 10 percent of GDP per year. The first and most obvious impact would be the loss of Kumtor's budget contributions. On average, since the current arrangement came into force in 2009, Kumtor has contributed about 6 percent of the country's total tax revenues. Second, the suspension of operations would lead to the loss of export revenues. Since 2009, gold has accounted for an average of 30 percent of the country's total exports. Third, Kumtor is one of the largest private sector employers with a total workforce of more than 2,500 people. Fourth, the long term environmental impact of Kumtor gold production is mixed, given its influence

[1] Prepared by Erkeaim Shambetova.

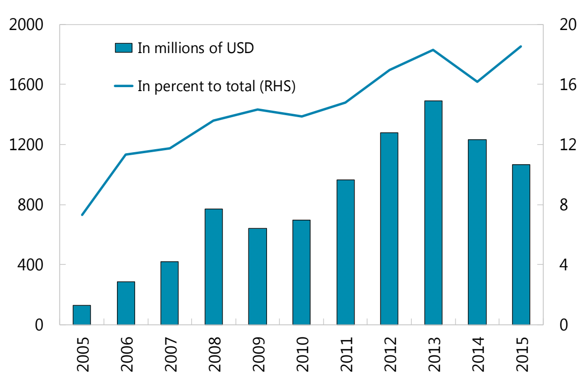
on adjacent glaciers, but a sudden halt to activity at the mine would likely have a negative effect on the environment. Fifth, Kumtor as the largest foreign investor, represents the barometer for the investment climate in the Kyrgyz Republic.

Annex III. Linkages with China[1]

The key channels linking the Kyrgyz and Chinese economies are trade and investment. Authorities on both sides have prioritized deepening these channels through multilateral arrangements including the Shanghai Cooperation Organization (SCO), the Program of Cooperation between Kyrgyzstan and China 2015-2025 and the cross-border cooperation program 2015-2020.

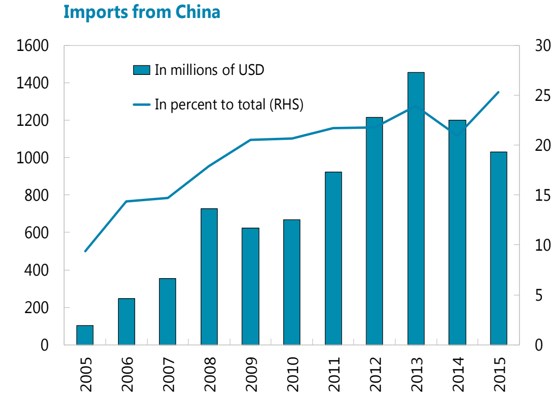
Trade with China accounted for approximately one-fifth of the Kyrgyz Republic's external trade turnover and one-quarter of imports in 2015. External trade turnover with China grew every year between 2005-2013. In 2014, imports from China fell sharply, due mainly to the onset of the economic crisis, uncertainty related to EEU accession, and slowdown in the execution of infrastructure projects financed by China. While continuing to fall in absolute terms, the share of China's imports remains the same. As exports to China are insignificant, the rebalancing from investment to consumption in China is unlikely to have much of an effect on the Kyrgyz Republic in terms of trade activity.

External Trade Turnover with China



Source: Authorities data.

Imports from China



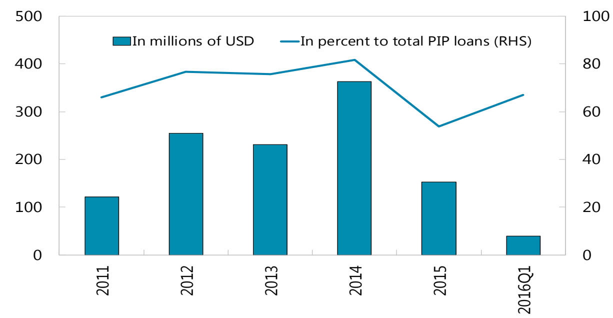
Source: Authorities data.

Lending is another key channel. Since independence, the Kyrgyz Republic has signed more than 10 public investment agreements with China worth more than $1.8 billion (excluding grants). Chinese financing is mostly concentrated in transport infrastructure and energy, and on concessional terms.

[1] Prepared by Lilia Kadyrberdieva.

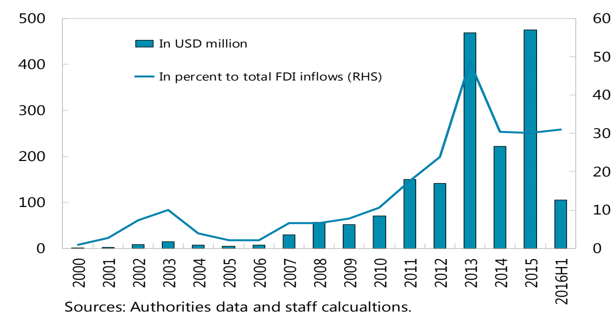
Inward foreign direct investment (FDI) from China has exceeded $ 1.2 billion over the past few years, accounting for an average of 30 percent of all FDI inflows over that period. The sharp fluctuation in FDI flows from China is attributable to the timing of project completion and, to some degree, to uncertainty regarding the consequences of accession to the EEU. However, the overall trend remains positive. One of the largest Chinese investments in the Kyrgyz Republic went toward the construction of the Kara-Balta oil refinery, known as "Dzhunda," which received investments from Chinese partners of about $350 million.

Chinese PIP Loans



Source: Authorities data.

FDI Inflows from China to the Kyrgzy Republic

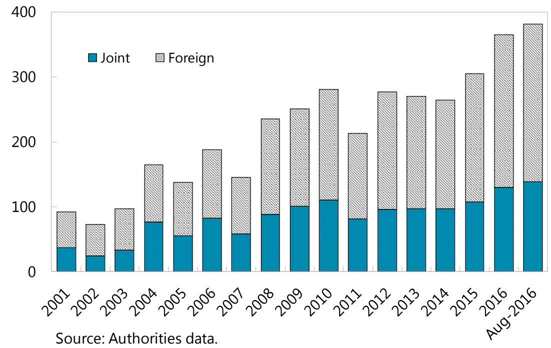


Sources: Authorities data and staff calcualtions.

Outward FDI from the Kyrgyz Republic to China is noteworthy, amounting to $175.5 million (36.6 percent of all FDI outflows) in 2014 and $113.5 million (26.3 percent of all FDI outflows) in 2015.

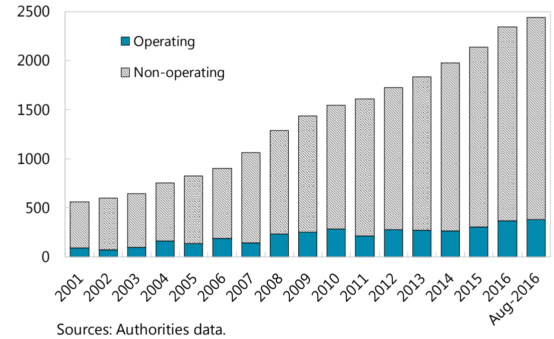
While there are large numbers of registered business entities with Chinese capital, only about 10 percent are operating. However, the number of enterprises and their output are increasing. The level of production of industrial goods by these enterprises increased significantly in 2014 and 2015, which is largely explained by the launch of the Kara-Balta oil refinery. Other potential areas of cooperation include the Economic Belt of the Silk Road (EBSR), a transport and infrastructure project initiated by China, and the Asian Infrastructure Investment Bank (AIIB).

Number of Operating Business Entities with the Chinese Capital Shares



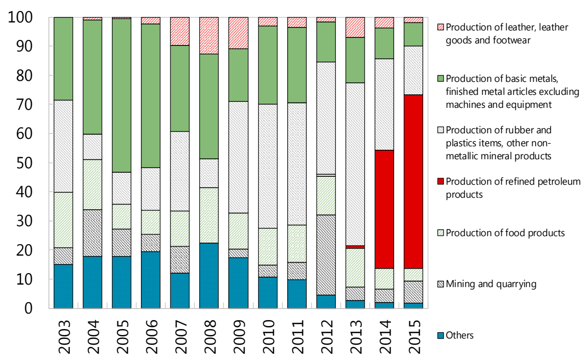
Source: Authorities data.

Number of Registered Business Entities with the Chinese Capital Shares



Sources: Authorities data.

Structure of Industrial Goods Produced by Chinese and Joint Enterprises (In Percent)



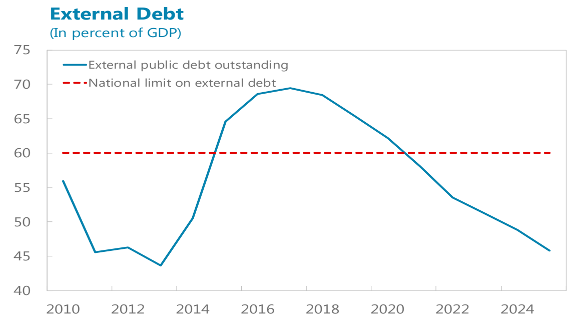
Sources: Authorities data and IMF staff estimates.

Production of Industrial Goods by Chinese and Joint Enterprises

Sources: Authorities data and IMF staff estimates

Annex IV. Fiscal Rules[1]

The Kyrgyz Republic has never had fiscal rules. The closest thing the country had to a fiscal rule was the limit on external debt of 60 percent of GDP. However, when this ratio was breached in 2015, the absence of remedial action did not compel the authorities to address the breach. Instead, they amended the law whereby the debt limit will be determined annually in the context of the budget law, with no remedial action should the threshold be breached.



Sources: Kyrgyz authorities and IMF staff estimates and projections

Principles and best practices of fiscal rules[2]

A fiscal rule imposes a long-lasting constraint on fiscal policy through numerical limits on budgetary aggregates. Rules aim at correcting distorted incentives and containing pressures to overspend, in particular in good times, so as to ensure fiscal responsibility.

Fiscal rules in the Kyrgyz Republic can serve different goals. While the focus is primarily on rules that promote fiscal sustainability, the objectives can also extend to debt sustainability, economic stabilization, or limiting the size of government, which are all relevant in the Kyrgyz case. The rules can have divergent consequences. On the one hand, they can correct the distorted incentives in policy making such as (i) governments' shortsightedness, typically in the context of elections; and (ii) special interest groups competing for their own demands without internalizing the consequences on the overall budget. On the other hand, however, the rules (i) are not effective without sufficient political commitment; (ii) may entail a procyclical stance in bad times as they constrain discretion; (iii) may undermine the quality of fiscal policy because they do not specify the composition of the eventual adjustment needed; and (iv) can encourage creative accounting and off-budget operations, and reduce transparency.

[1] Prepared by Claire Gicquel.

[2] This section is based on the two following papers: IMF Fiscal Affairs Department (2009), "Fiscal Rules—Anchoring Expectations for Sustainable Public Finances" and IMF Working Paper (2012), "Fiscal Rules in Response to the Crisis—Toward the "Next-Generation" Rules. A New Dataset".

Table 1. Properties of Different Types of Fiscal Rules Against Key Objectives 1/

Table. Properties of Different Types of Fiscal Rules Against Key Objectives 1/

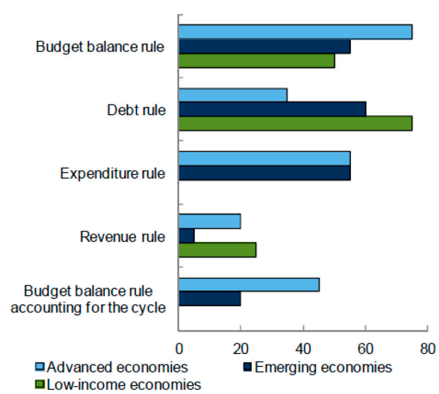
	Objectives		
Type of fiscal rule	Debt sustainability	Economic stabilization	Government size
Overall balance	++	-	0
Primary balance	+	-	0
Cyclically adjusted balance	++	++	0
Balanced budget over the cycle	++	+++	0
Public debt-to-GDP ratio	+++	-	-
Expenditure	+	++	++
Revenue			
Revenue ceilings	-	-	++
Revenue floors	+	+	-
Limits on revenue windfalls	+	++	++

Source: IMF staff assessment.

1/ Positive signs (+) indicate stronger property, negative signs (-) indicate weaker property, zeros (0) indicate neutral property with regard to objective.

There are different types of rules that the Kyrgyz Republic can draw on. The most frequent rules constrain debt and the budget balance, often in tandem. However, some countries also limit expenditures or even, to a lesser extent, on revenue. In low-income countries, the debt and budget balance rules are more common.

Regional Differences Regarding the Type of National Fiscal Rules



Source: IMF staff assessment.
Note: Includes countries with at least one national fiscal rule.

The design and implementation of fiscal rules should include three components for effective fiscal policy rules (i) an unambiguous and stable link between the numerical target and the ultimate objective; (ii) sufficient flexibility to respond to shocks; and (iii) a clear institutional mechanism to map deviations from the numerical targets into incentives to take corrective actions.

Adequate PFM systems are prerequisites for effective implementation of fiscal rules. In many cases, fiscal rules have been introduced as part of broader reforms aimed at strengthening the framework for fiscal policy.

Legislative support basis differs by rule and country. They are included in a mix of statutory norms, political commitments, and coalition agreements. Higher-level legislation tends to confer more stability to the framework but it may not necessarily enhance the effectiveness of the fiscal rules if enforcement mechanisms and accountability procedures are weak. For countries with weak institutions, the simplicity of adoption and rapid implementation may also be key factors in deciding which legislative framework to use.

The coverage of government for national rules is split almost equally between general government and central government only. The coverage of aggregate often excludes revenue and/or expenditure items from target variables. Typically, those would be capital expenditure or poverty related expenditures for LICs.

As for enforcement, the introduction of fiscal rules does not guarantee success, unless the cost of breaking the rule is higher than the benefit of doing so. Sanctions are rarely envisaged as they require an effective third party to enforce them. Therefore, formal enforcement procedures should rely on mechanisms maximizing reputational cost and/or mandating corrective actions.

Conclusion

In order to be credible the fiscal rules in the Kyrgyz Republic need to:

- be brought in at the highest level of the government and enshrined in law;
- be embedded in PFM reforms, which would serve as support for setting up fiscal rules;
- target at least the overall fiscal balance and the debt level, given existing debt vulnerabilities; and
- envisage targeting (i) the level of tax revenue to ensure the development of a healthy tax basis, instead of relying on one-off revenues; and/or (ii) the level of poverty-related expenditure, especially as poverty levels are still high and have been rising, according to the latest data.

Annex V. Public Investment and Debt Sustainability – An Illustrative Scenario[1]

To assess the impact of the scaling-up of public investment on public debt in Kyrgyz, we used the MCDMOD model to simulate an illustrative fiscal policy scenario under adverse economic conditions triggered by persistently low oil prices (see Annex I).[2] In the exercise, we assume an expansionary fiscal policy that aims to stabilize output, mainly via increased additional fiscal spending on public investment (80%) and consumption (20%).[3]

The expansionary fiscal scenario shows that while additional fiscal spending can stabilize the output level in case of a permanent shock, this could undermine the sustainability of public finances. Given that the drop in output is permanent, the output level can only be stabilized via a constant 5 percentage point increase in the fiscal deficit to GDP ratio. This large expansion of the deficit needs to be financed via borrowing, which results in an ever accelerating debt accumulation path. Despite of the positive impact on output, the public debt to GDP ratio does not stabilize and the debt position becomes unsustainable.

While this is an illustrative scenario, its assumptions are largely plausible. We assume an 0.7 growth multiplier of public investment. This is significantly lower than the standard multiplier for advanced economies, which is usually above 1. However, based on available evidence,[4] public investment efficiency is particularly low in the Kyrgyz Republic, not only in a regional comparison, but even among the larger sample of low-income/emerging economies. The assumption of a 1 percentage point increase in public borrowing costs is based on the assumption that, although the Kyrgyz Republic relies on very favorable and long-term concessional financing, the increasing reliance on the more expensive bilateral loans (primarily Chinese) would result in an inevitable increase in borrowing costs. Finally, the magnitude of scaling-up public investments is also not unprecedented. The output stabilizing fiscal expansion assumes a 4 percentage point increase in the public investment per GDP ratio, which is similar to the increase that occurred since 2014.

Overall, this simulation exercise underlines the risks associated with the Kyrgyz Republic's current investment-based growth model. Public investment projects, if not profitable, would not increase the country's future capacity to repay its debt, which combined with the potentially higher costs of borrowing, could push debt to an unsustainable path. Against this background, the authorities need to remain cautious when contracting and guaranteeing new debt, ensure sufficient

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[1] Prepared by Gabor Pula.

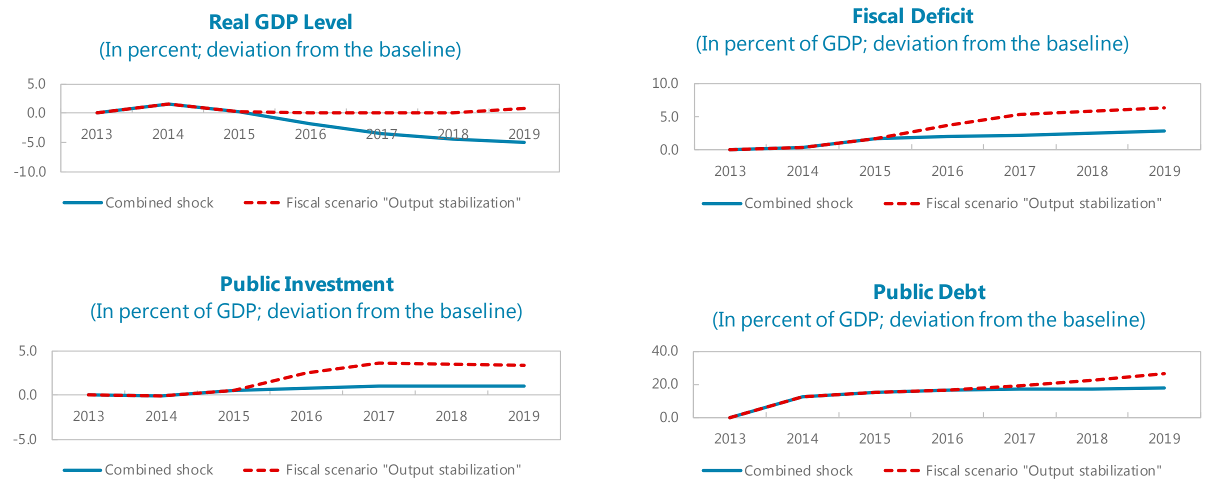
[2] The MCDMOD model is a version of the IMF's Flexible System of Global Models (FSGM), which has detailed regional modules including the Middle East and Central Asia. The FSGM is a semi-structured DSGE, which was developed with the aim of modelling spillovers across a large number of countries / regions. The model simulation is run on the CCA import module, which combines the Kyrgyz Republic and Tajikistan.

[3] For government investment, the multiplier is 0.7 in the first year and 0.9 in the second year. The multiplier of public investment in the Kyrgyz Republic is lower than in other economies (where the impact of government investment is usually above 1) due to lower public investment efficiency (see Dabla-Norris and others 2012). The growth multiplier of public consumption is set at 0.7.

[4] PIMA report; and Dabla-Norris and others 2012.

profitability of public investment projects and develop a framework for selecting, monitoring, and evaluating public investment projects (both PIP and domestically financed).

Model Simulations

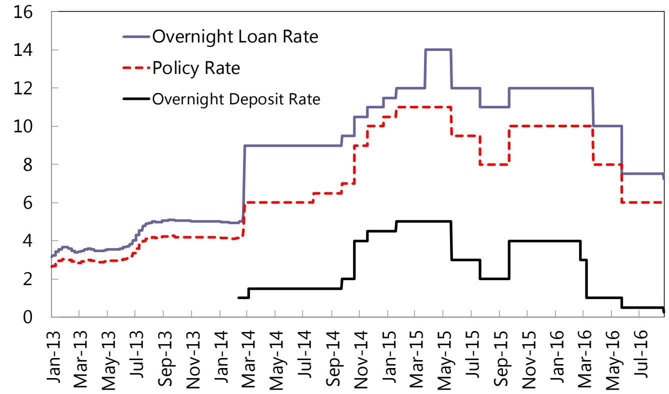


Source: IMF MCDMOD

Annex VI. Monetary and Exchange Rate Policy — Invisible Flow that Hampers Transmission; Interbank Market Issues[1]

The NBKR introduced an interest rate targeting monetary policy framework in March 2014, with the goal of better controlling inflation. The policy rate was chosen as the operational target, with an asymmetric and wide interest rate corridor around the target, using overnight deposits and overnight loans. Previously, the NBKR targeted monetary aggregates, guided by liquidity forecasts, while the NBKR's interest rate was determined by the average weighted interest rate of NBKR 28-day notes. The expectation was that the interest rate targeting framework will be used to steer actual short-term market rates toward the middle of the interest rate corridor and make the interbank market more active. However, a series of impediments has made the NBKR set an even wider and more asymmetric corridor.

NBKR's Policy Interest Rate Corridor
(In percent)

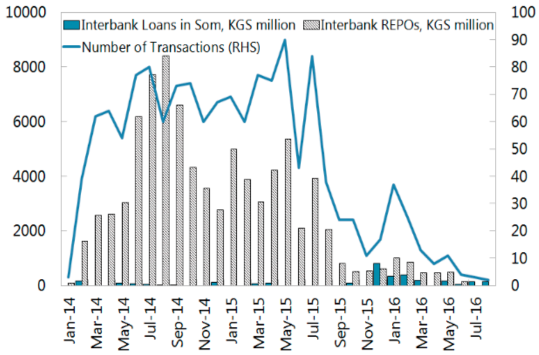


Source: Authorities data.

The interest rate targeting stimulated the Kyrgyz interbank market, as evidenced by the significant increase in the number and volume of transactions in 2014 and first half of 2015. However, following the turbulence on the exchange rate market, the interest rate channel showed its limitation. With a highly dollarized and import-dependent economy, the population is sensitive to exchange rate volatility, which further strengthens the exchange rate channel. Heavy foreign exchange market interventions by the NBKR also encouraged inflation expectations to be influenced by movements of the nominal exchange rate. The chart below shows that interbank som transactions—including both the volume and number of REPOs and loans—fell sharply, while the interbank transactions in foreign currency, including SWAPs, loans with non-residents, and foreign exchange market, increased.

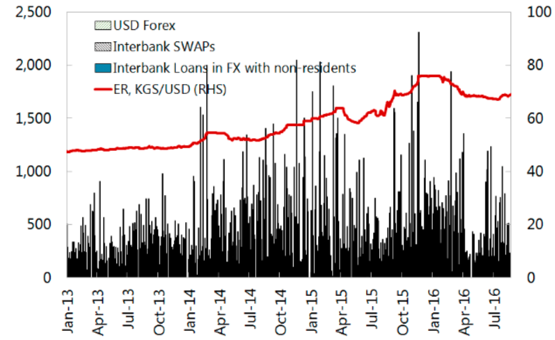
[1] Prepared by Lilia Kadyrberdieva.

Interbank Domestic Currency Market
(In millions of soms)



Sources: Authorities data.

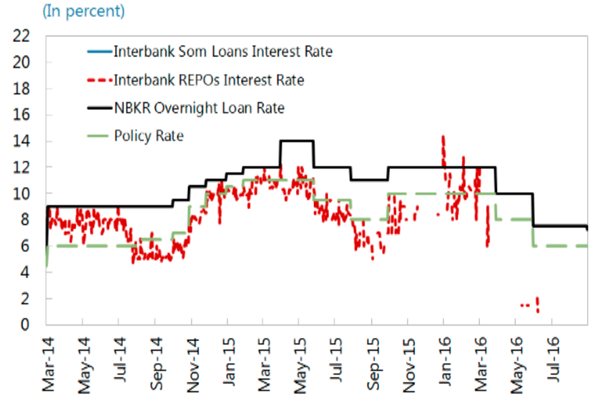
Interbank Foreign Currency Market
(In millions of soms)



Sources: Authorities data.

The impact of the NBKR policy rate on interbank interest rates has been limited. With the new monetary policy framework, the NBKR sought to clearly signal the monetary policy stance and keep short-term interest rates close to the announced policy rate. However, given the substantial decrease in the number of transactions in the som interbank market (from 536 transactions and volume of KGS 29.6 billion over eight months of 2015 to 103 transactions and volume of KGS 3.5 billion over eight months of 2016), the impact of the NBKR policy rates on interbank interest rates has been limited. Interbank som interest rates are characterized by a high degree of volatility and divergence, which can obstruct the monetary policy stance. Interest rates on interbank som loans usually exceed the NBKR overnight loan rates. This can be explained by longer maturities, higher credit risk, problems of trust, and lack of long-term som resources.

Kyrgyz Money Market Daily Interest Rates
(In percent)

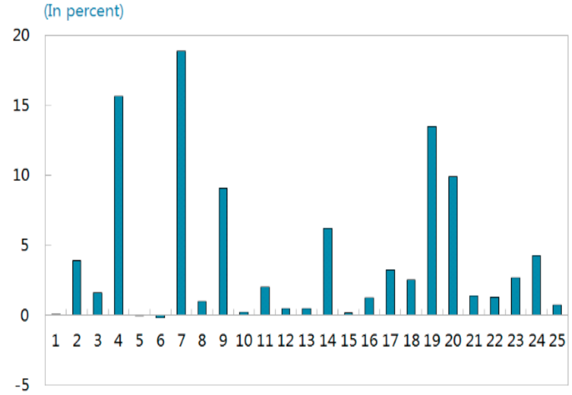


Source: Authorities data.

However, liquidity remains very volatile. The specific nature of the increased short-term, volatile, and uneven distributed som liquidity—together with interventions and policy decisions—causes sharp fluctuations in the interbank market. Namely:

- The average intraday level of excess liquidity reaches KGS 13-14 billion. However, most of this excess liquidity is short term and mainly consists of the government resources and settlement accounts of several big

Distribution of Excess Liquidity among 25 Banks
(In percent)



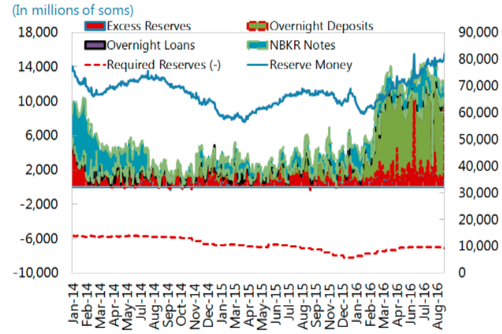
Source: Authorities data.

companies related to oil, communication, and trade which can easily cause imbalances in the shallow Kyrgyz market. These big companies are dependent on the exchange rate fluctuations and operate unevenly with large amounts of funds, which cannot be absorbed by the shallow Kyrgyz interbank market. The NBKR remains the major dealer in this regard.

- The concentration index of excess liquidity averaged about 0.3 over the past three years. Higher values of excess liquidity concentration index were often associated with higher excess reserves concentrated in a few banks. As of July 2016, about 60 percent of excess liquidity was concentrated in the five largest banks, 80 percent in the 10 largest banks, and about 13 percent in the 10 smallest banks.

Excess Som Liquidity and Reserve Money (on Daily Basis)

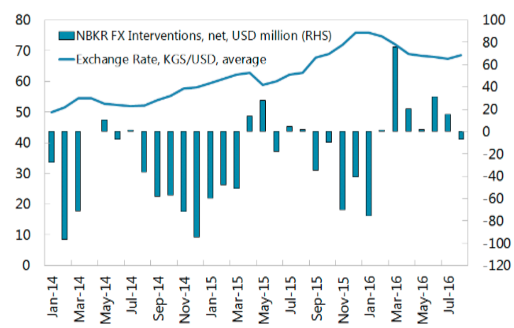
(In millions of soms)



Source: Authorities data.

- After the period of som depreciation and heavy NBKR's sales of U.S. dollars in the foreign exchange market in 2014-15, the som began to appreciate in 2016 against the dollar, allowing the NBKR to start buying back U.S. dollars, replenish reserves, and release liquidity.

Exchange Rate and NBKR FX Interventions

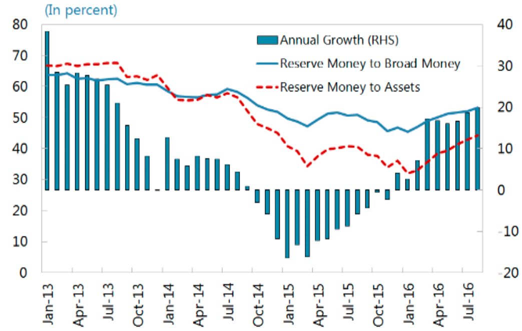


Source: Authorities data.

- In January 2016, the reserve requirements for som liabilities were reduced to 4 percent and increased for the foreign exchange liabilities to 12 percent. Thus, the essential amount of som liquidity has been released. Despite the continuation of low levels of reserve money (53 percent to the broad money compared to 64 percent in January 2013), annual growth was a positive 19.8 percent at the end of August 2016.

Reserve Money

(In percent)



Sources: Authorities data and IMF staff calculation.

Commercial banks identify the following obstacles for the development of the interbank credit market:

- high credit risk;
- low demand for short-term som liquidity;
- high prices for longer-term liquidity;
- small size of the market;
- higher losses than in other segments, including the foreign exchange market. Smaller banks were reluctant to rely on the interbank market, fearing that the difficulty of coping with the short-term volatility would leave them exposed to potential losses;
- mistrust among participants;

- the custom of trading over the phone. In fact, all transactions are done this way, while the Trade Electronic System is used only for post-factum registration of the implemented transactions;
- high concentration and specialization of banks. There is an almost constant list of banks that have excess liquidity in soms and/or in dollars;
- conservative risk policy and strict limits and restrictions for using different operations.

Commercial banks attribute the lack of long-term som liquidity to the low level of long-term deposits. The only available sources for long term liquidity at the moment are the Social Fund and RKDF, which are limited and not cheap. Thus, still high loan interest rates despite the low policy rate, are caused not only by elevated credit risk and operational costs but also by the high price and shortage of long-term resources. Several banks believe that under the som exchange rate stabilization, allowing to hold reserves requirements in foreign currency for the deposits in foreign currency may help increase the supply of som liquidity for lending purposes.

Appendix I. Letter of Intent

December 5, 2016

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

Dear Madame Lagarde:

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

After a difficult start of the year, pressures on the economy are moderating, helped by a stabilizing regional context. Growth, however, is expected to remain lower for longer, due the adverse regional and global economic climate. In this context we are committed to redoubling our reform effort to help the economy adjust to the new realities.

We remain committed to the policies and objectives supported by the ECF arrangement. Our actions ensured that all end-June quantitative performance criteria (PCs) and indicative targets (ITs) were met. However, two structural benchmarks (SB), the Banking Law and subsidy review, have not been met.

In view of the progress made and our continued commitment to the program, we request completion of the third review and disbursement in the amount of SDR 9.514 million ([US$12.88] million). We ask that the disbursements under the ECF arrangement be channeled to the budget.

We believe that the economic and financial policies set forth in this Letter of Intent (LOI) to be adequate to meet the program's objectives.

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

As in the past, the government of the Kyrgyz Republic agrees to the publication of this letter, the Technical Memorandum of Understanding (TMU), and the Debt Sustainability Analysis.

Recent economic developments

1. **While moderating since the beginning of the year, external pressures continue to hold back our economy.** Overall non-gold growth reached 1.2 percent by end-June compared to 3.8 for the same period in 2015 due to weaker external and domestic demand. By end-September, non-gold growth accelerated to 3.1 percent on the back of improving performance in trade, construction and agriculture. Since the beginning of the year, inflation remained consistently below our target range, venturing into deflation in April, and again in September (-0.3 percent), largely due to low food and fuel prices. Core inflation is at about 6 percent and is in the middle of our target range for headline inflation.

2. **The som appreciated by about 10.5 percent against the dollar during the first nine months of the year, reducing pressure on consumer demand and the financial sector.** This allowed the NBKR to lower the policy rate to 6 percent and intervene on the foreign exchange market by purchasing about US$61 million in net terms. Volatility returned to the foreign exchange market in the summer with the som paring some of its earlier gains.

3. **The inflow of remittances is growing steadily, as our citizens benefit from easier access to EEU labor markets, but is still below pre-crisis levels.** The trade balance continues to be effected due to weak gold exports, trade diversion after EEU accession, the effects of weak external demand, and the relative appreciation of the som against the main trading partner currencies. Exports have dropped by 24 percent y-o-y by end-June, while imports shrank by 8 percent over the same period, mainly due to lower energy imports.

4. **The overall fiscal deficit for the first half of 2016 reached 2.2 percent of GDP, in line with the program target.** Revenues were better than anticipated due mainly to outperforming customs duties and the implementation of revenue measures introduced earlier in the year. Current expenditures were slightly higher than expected, while capital expenditures were lower than expected due to delay in some domestically financed projects. Additionally, public external debt continued to rise reflecting continued borrowing, linked to the public investment program as well as a slowing GDP.

5. **Transitioning to EEU membership remains a challenge.** Our exporters continue to face non-tariff barriers in accessing EEU markets. We still encounter certain difficulties in accounting for export and import of goods from countries members of EEU that hampers our ability to collect VAT and other duties.

6. **Strong capital buffers and falling dollarization helped moderate pressures on the banking sector.** Nonetheless, we continue to monitor the sector for vulnerabilities. Dollar loans shrank (22 percent) during the first nine months partly due to macro-prudential measures, offsetting the growth in som denominated loans (21 percent). As a result, overall credit growth shrank by

1.9 percent (y-o-y, end-September), whereas NPLs have risen to 9 percent during the same period. Deposit dollarization declined to 54 percent at end-September. Capital adequacy is high and all banks have met the new capital requirements of som 400 million.

Outlook and risks

7. **Should recent signs of improvement in the external environment hold, we expect growth to pick up for the remainder of the year.** While the worst of the crisis is behind us, annual growth will remain weak at around 2.5 percent in 2016. The economy should improve over the medium term as trading partners' growth recover but remain below potential. Inflation is also expected to pick up somewhat as food and fuel prices stabilize and domestic demand recovers. The current account deficit will narrow this year due to rescheduling of the PIP program but, consequently, is expected to widen over the next two years. It will gradually moderate thereafter as remittances recover and public investment moderates.

8. **The main risks to our economy continue to stem from developments in commodity markets and economic dynamics in Russia and Kazakhstan.** In the run-up to next year's elections, budgetary pressures could rise and the reform process could slow down. The full positive effects of EEU accession are still to be realized, reflecting a weak economic activity within the union and trade diversion. Exchange rate volatility could impact public debt and banking sector. Upside risks include the strengthening of economic ties with China, notwithstanding its economic slowdown, and projects financed by the RKDF.

The government's policies for the remainder of 2016 and 2017

To keep the program on track, we will implement the necessary policies to ensure that the program's objectives are achieved. In this context, we will adopt a supplementary budget in line with program commitments; continue consolidation efforts in the 2017 budget; undertake efforts to enact the current Law on Banks and Banking Activity and re-introduce key elements through amendments of the Law, once the Law becomes effective; and continue to carry out interventions in the foreign exchange market to smooth excessive volatility while carefully striking a balance between financial sector stability and external competitiveness.

Fiscal policy

9. **We are committed to a fiscal deficit target of 4.5 percent of GDP in 2016.** To this end we will (i) implement the additional fiscal measures identified in the June LOI; (ii) submit to parliament a proposal to eliminate the VAT exemption on flour by the end of 2016; (iii) monitor the implementation of the public investment program to ensure debt sustainability and avoid tipping public debt into high risk of debt distress; and (iv) refrain from non-budgeted spending. As the implementation of fiscal measures (see Attachment I) will not yield the expected results mostly due to the lengthy time required for the different pieces of legislation, we will cut our development budget accordingly to ensure that the end-year target deficit will be met. Any additional revenues including grants shall be used to reduce the deficit.

10. To keep debt at sustainable levels, we will continue consolidation efforts in 2017 and reduce the deficit to 3 percent of GDP. The fiscal measures, identified during the second review, should fully yield the expected results. In this context we will ensure that the legislation needed for the remaining measures will be part of the 2017 budget law. Particularly, we will implement our action plan to reform public sector personnel and remuneration policy. Additionally, we will adhere to the action plan on public investment management, especially on rationalizing domestically financed capital expenditure.

11. Our 2017 budget will fulfill the following criteria:

- On the revenue side, we will increase taxes by 0.3 percentage point of GDP. To this end, we are reviewing the system of exemptions in order to streamline them; meanwhile we will refrain from extending expiring exemptions or granting new ones (continuous IT). We will undertake measures to harmonize excise tax rates on alcohol and tobacco products with EEU countries, introduce control stamps for domestically produced goods, and submit to Parliament a proposal to introduce a luxury tax for properties. Additionally, we are planning to review taxation of natural resources with the help of an international expert. We are committed to strengthen VAT administration by, among others, enhancing control with tax officers and other regulatory authorities in the border areas.

- On the expenditure side, we will reduce current expenditures and domestically financed capital spending by 4 percentage points of GDP, and allow PIPs to increase by about 1 percentage point of GDP. By optimizing public sector headcount, we will reduce the wage bill, in line with the action plan for reforming public sector personnel and wage bill for 2016-2019 recently adopted by the Ministry of Labor and Social Development and MoF. This will help us fulfill our commitment of reducing the wage bill by 1.4 percentage points of GDP to 8.7 percent of GDP in 2018. We will also rely on the action plan to identify quantitative measures, which will help us meet this target (SB, end-May 2017). We will reduce spending on goods and services to the 2015 level in percent of GDP. We will refrain from quasi-fiscal activities that may have budgetary implications. We undertook a review of our electricity tariffs and are committed to strictly adhere to our medium-term tariff strategy with the aim of ensuring the sustainability of the sector. To maximize pro-poor spending, we will improve the targeting of social benefits to avoid duplication. Due to capacity constraints, we were unable to complete the review of subsidies on time. We will finalize the review and the action plan to reduce subsidies by July 2017 (SB).

12. To ensure that debt remains sustainable and that the public debt ratio starts to decline, we will aim to further reduce the deficit over the medium term. To this end we will (i) continue consolidation efforts over the medium term; (ii) refrain from non-concessional borrowing including by SOEs; (iii) improve debt monitoring, including for SOEs; and (iv) enhance the efficiency of public sector investments by implementing the recommendations of the PIMA mission.

Monetary and exchange rate policies

13. Current deflationary pressures allowed us to relax monetary policy. We are currently balancing the need for policy relaxation stemming from the recent drop in headline inflation, the moderation of credit growth, and weaker growth prospects, against the potential of fiscal and exchange rate pressures. We will continue to monitor market developments closely and adjust the policy rate in line with the emerging market pressures.

14. We are committed to enhancing the monetary transmission mechanism, with a goal of gradually moving toward inflation targeting. We are focused on improving the transmission mechanism of monetary policy to better align market rates with policy rates. In that context, we will consider narrowing the corridor around the policy rate and make it more symmetric. At the same time, we will also undertake measures to deepen the interbank market by (i) allowing NBKR notes to be used as collateral in the interbank market; and (ii) maintaining liquidity at a level that ensures the effective functioning of the interbank market. We will include forward looking guidance in our regular communications. The above policies will support our efforts to transition to inflation targeting over the medium term.

15. Exchange rate flexibility remains the anchor of our exchange rate policy. In order to maintain an adequate level of reserves, we will (i) conduct interventions in the foreign exchange market to only smoothing excessive fluctuations while at same time ensuring a two-way flexibility; and (ii) consider the possibility of introducing new monetary and developing hedging instruments.

Financial sector

16. We continue to monitor the financial sector for emerging risks associated with foreign exchange volatility, dollarization, and economic slowdown. In this context, we will revise, submit for public discussions and approve by end of the first quarter of 2017 (SB, end-March 2017) the regulations for (i) classifying restructured loans, which will result in abolishing prolonged loans category; and (ii) refinancing of classified loans. We will also continue our efforts to align our regulations on the classification of assets with international best practice. Moreover, in order to maintain a level playfield for all financial market participants, we will unify foreign exchange collateral requirements for the loans of the NBKR for all entities using NBKR's credit facilities (prior action). Furthermore, when revising our regulations in the context of the Banking Law, we will adopt measures to preserve the main requirements for lending to related parties (SB, end-May 2017).

17. We continue to strengthen and modernize our banking supervision framework. To this end, we continue to work with the resident expert and will redouble our efforts to finalize the strategic plan for supervision by the end of the year. We intend to adopt the strategic plan by the agreed time.

18. We will continue to work on improving our crisis preparedness framework and fine-tune the functions of the recently established high-level financial stability council. We are aware that the success of the framework will hinge on closer coordination among all relevant agencies including, regular communication and exchange of information between the NBKR, MoF, and DPA. As a first step and with the goal of testing and improving our coordinating arrangements, we have conducted a crisis simulation exercise with the help of the World Bank in October 2016.

19. The recently passed Banking Law will be published in the Official Gazette (Erkin Too) by end-December 2016. The Law initially passed the third reading on September 28, but was returned to Parliament by the President on November 14. After addressing the President's concerns, Parliament adopted again the Law on November 30. We will exert our best efforts to ensure the swift enactment and publication of the Law in the Official Gazette before the end of the year. The law represents significant progress in strengthening the banking regulatory framework, despite certain deviations from the draft submitted in September 2013. Nevertheless, we remain committed to achieving the key objectives of the Banking Law as originally envisaged. To that end, we will prepare amendments to the Banking Law to reintroduce the missing provisions, which were previously submitted to Parliament in 2013, regarding (i) governance and oversight, including the NBKR's Board composition; (ii) judicial review and nonsuspension of the NBKR's decisions; (iii) powers of the NBKR in the resolution and liquidation process; and (iv) lending to non-supervised institutions. As a first step, the NBKR will circulate to ministries for review these amendments (SB, end-April 2017). Furthermore, following the coming into force of the Law — six months after its publication in the Official Gazette (Erkin Too) — we will submit to Parliament (SB, end-July 2017) and exert our best efforts to enact and publish in the Official Gazette these amendments by Parliament (SB, end-December 2017).

20. We will continue our efforts to liquidate all the banks under DEBRA's management. Since June, we have obtained court orders for the liquidation of "Bishkek", "Adil" and "Kurulush" banks, and submitted the request for liquidation of "Mercury" bank. We will continue to exert our best efforts to submit to courts, in accordance to existing legislation, requests for liquidation of the remaining banks by end-March 2017.

21. We are committed to strengthening and implementing an AML/CFT regime in line with international standards. In June, we submitted to Parliament a draft law of the Kyrgyz Republic on combating the legalization (laundering) of proceeds from crime, financing of terrorist and extremist activities, which incorporates the main recommendations from IMF experts. Timely action through the adoption, publication and effective implementation of the law should contribute to a positive Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) assessment during 2016-2017.

Institutional and structural reforms to ensure board based growth

22. We firmly believe that improving the business environment will be key to withstanding external shocks, attracting investment and generating inclusive growth. In order to realize the full benefits from EEU membership, we will redouble our efforts to address weaknesses in the business environment. We continue to face challenges in the areas of ease of paying taxes, access to the power grid and resolving a business. While there was improvement in access to credit, our position in terms of establishing a business has deteriorated. To address these challenges, we will continue to work in the following directions (i) reducing the number of activities subject to licensing and streamlining the licensing process, (ii) streamlining tax and other inspection regimes, (iii) streamlining property registration; and (iv) establishing a unified and transparent procedure for access to utilities including the power grid. We will continue to improve the tax regime as a precondition for reducing the shadow economy. We will put all our efforts toward a constructive resolution of the dispute with Centerra to ensure that it does not lead to disruptions in gold production. A stable and predictable investment climate with proper contract enforcement, strong property rights, less red tape and corruption are essential for attracting investment and spurring private sector-led growth. Additionally, we developed an anti-crisis action plan to counter the weak outlook and external shocks.

23. PFM Reforms will remain our top priority:

a. We recently agreed to a new Multi Donor Trust Fund arrangement to support PFM reforms. The implementation of financial management information system (FMIS) would speed up the implementation of the treasury single account. We remain committed to implementing the Structural Benchmark on FMIS terms of reference. However, it will be delayed by three months (end-May 2017) at the donor's request. Additionally, we expect to sign the contract with the IT provider in (SB, end-September 2017). We remain committed to extend treasury coverage to the Social Fund. Additionally, the Budget Code which will come into force in January 2017, forms the basis for the 2018 Budget Law and includes a fiscal risk assessment.
b. We will develop next year a credible, transparent and enforceable fiscal rule, including limits on external debt and the fiscal balance. The Law on External Public Debt, which sets the external debt limit of 60 percent to GDP, will lapse with the coming into force of the Budget Code. A fiscal rule would provide an anchor to our fiscal policy and an additional safeguard to ensure debt sustainability. Unlike the expired debt limit the rule will include remedial actions to ensure compliance.
c. We will carry out an analysis to revise the institutional framework for fiscal policy in order to increase its effectiveness. The current framework, under which individual elements of fiscal policy, particularly on the revenue side, are divided among five different agencies with separate reporting lines and operational goals, has proven inefficient in addressing revenue shortfall. We will conduct an analysis of institutional responsibilities for tax policy design and implementation towards increasing coherence and accountability. This could be achieved by transferring tax policy to the MoF and introducing additional mechanisms for information sharing and coordination among MoF, STS, State Customs Service (SCS) and the Social Fund.
d. We will safeguard the recently introduced E-procurement framework. The framework has been effective, generating savings, reducing misuse of public funds and increasing transparency.

Program Monitoring

24. The ECF-supported program will continue to be monitored through prior actions, quantitative performance criteria, continuous performance criteria, indicative targets, and structural benchmarks. Quantitative performance criteria (QPC) and indicative targets (IT) for

December 2016, March, June, September, and December 2017 and continuous performance criteria are set out in Table 1. Prior actions 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 review is expected to be completed before December 31, 2017 based on continuous and end-June 2017 QPC. The sixth review is expected to be completed before June 30, 2018 based on continuous and end-December 2017 QPC. The understandings between the Kyrgyz authorities and IMF staff regarding the quantitative performance criteria and structural benchmarks described in this LOI and reporting requirements are further specified in the attached Technical Memorandum of Understanding (TMU).

25. We remain committed to implementing outstanding recommendations of the IMF safeguards assessment of the NBKR.

Sincerely yours,

/s/

S.Sh. Jeenbekov

Prime Minister of the Kyrgyz Republic

/s/	/s/
A.A. Kasymaliev	T.S. Abdygulov
Minister of Finance of	Chairman of the National
the Kyrgyz Republic	Bank of the Kyrgyz Republic

Table 1. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, June 2016–December 2017

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

	2016							2017			
	June				September	December		March	June	September	December
	QPC				IT	QPC		IT	QPC	IT	QPC
	2nd review	Adj.	Actual	Status	2nd review	2nd review	3rd review				
Quantitative performance criteria 1/											
1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars)	1,235	1,288	1,425	Met	1,164	1,110	1,418	1,346	1,347	1,329	1,347
2. Ceiling on net domestic assets of the NBKR (eop stock)	-22,625	-24,625	-28,090	Met	-23,688	-18,523	-9,587	-7,546	-5,388	-5,746	-5,199
3. Ceiling on cumulative overall deficit of the general government 2/	12,108	11,609	9,582	Met	15,602	20,492	20,156	9,691	17,549	17,032	14,480
4. Present value of new external debt contracted or guaranteed (continuous, in millions of U.S. dollars)	220		138	Met	220	220	287	311	311	311	311
5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0		0	Met	0	0	0	0	0	0	0
Indicative Targets 1/											
1. Ceiling on reserve money	75,915		75,897	Met	74,213	76,092	85,656	86,376	91,329	92,312	93,968
2. Cumulative floor on state government tax collections 2/	41,739		43,046	Met	67,862	99,153	97,783	20,031	43,051	71,142	106,653
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit and Monthly Social Benefit programs 2/	2,377		2,729	Met	3,615	5,417	5,322	1,339	2,678	4,017	5,557
4. Ceiling on new nonconcessional external debt contracted or guaranteed by public sector (continuous, in millions of U.S. dollars) 3/	0		0	Met	0	0	0	0	0	0	0
5. Ceiling on introducing new and renewal of existing tax exemptions	...		...	na	...	...	0	0	0	0	0

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ As defined in the TMU.

2/ Cumulative from the beginning of the year.

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

4/ Includes mineral development fees.

Table 2. Kyrgyz Republic: Prior Action and Structural Benchmarks Under the Extended Credit Facility

Measures	Timing	Status
Prior Action		
Unify foreign exchange collateral requirements for the loans of the NBKR for all entities using NBKR's credit facilities.	5 business days prior to the board meeting	
Structural Benchmarks		
I. FISCAL POLICY		
Undertake a review of the public investment framework in cooperation with development partners and line ministries to identify gaps and then define an action plan.	End-April, 2016	**Met**
Draw an action plan for the reform of public sector personnel and remuneration policy to reduce the wage bill as a share of GDP.	End-May, 2016	**Met**
Review the methodology for setting power tariffs to ensure economic soundness and adjust accordingly the roadmap for increasing tariffs.	End-June, 2016	**Met**
Sign a Memorandum of Co-operation with TIKA, the Turkish Cooperation and Coordination Agency, to develop new Financial Management Information System.	End-June, 2016	**Met**
Revise the MDTS in light of the outcome of the new DSA.	End-July	**Met**
Conduct a review of all subsidies and draw up an action plan to reduce them.	End-September, 2016	**Not met**
Modify through government decree the decision making process for the selection of public investment projects by formalizing gate keeping roles of the MoE on evaluation, including economic assessment and project efficiency, and MoF on financing respectively. The PIP guidelines will be updated accordingly.	End-December, 2016	**Met**
Set up a comprehensive register of all employees of the general government.	End-March, 2017	
Relying on the action plan to reform personnel and remuneration policy, identify quantitative measures to reduce the wages bill to 8.7 percent of GDP in 2018.	End-May, 2017	**New**
Sign the FMIS terms of reference.	End-May, 2017	
Finalize the review and the action plan to reduce subsidies.	End-July, 2017	**New**
Introduce a standardized framework for project monitoring of physical and financial performance for all projects exceeding KGS 50 million.	End-June, 2017	
Sign the contract with the IT provider for the FMIS project.	End-September, 2017	**New**
II. FINANCIAL SECTOR		
DEBRA to submit to the courts requests for liquidating the following banks: "Bishkek", "Mercury", "Kurulush-bank", and "Adil" banks.	End-September, 2016	**Met**
Develop a crisis preparedness framework, including establishing a high-level financial stability council comprised of representatives of the NBKR, DPA, ministry of finance, and prime minister's office.	End-September, 2016	**Met**
Develop a strategic plan for supervision with the following components: (i) personnel policy to attract and retain qualified personnel, and decrease personnel turnover rate; (ii) training of supervisors to ensure that staff is familiar with the NBKR's supervisory approach and to improve their technical ability; (iii) enhancing the supervisory approach, including implementation of the risk-based supervision; (iv) strengthening the current regulatory framework and bringing it line with international standards.	End-December, 2016	
Approve by the NBKR Board regulations for: (i) classifying restructured loans, which will result in abolishing the prolonged loans category; (ii) refinancing of classified loans.	End-March, 2017	**New**
DEBRA to submit to the courts requests for liquidating the following banks: "Kyrgyzagroprombank" banks, "Manas", "Issyk-Kul", and "AUB" banks.	End-March, 2017	
Circulate to ministries for review amendments to the Banking Law to reintroduce the missing provisions regarding: (i) governance and oversight, including the NBKR's Board composition; (ii) judicial review and nonsuspension of the NBKR's decisions; (iii) powers of the NBKR in the resolution process and liquidation process; and (iv) lending to non-supervised institutions.	End-April, 2017	**New**
Revise and enact regulations to preserve the main requirement for lending to related parties.	End-May, 2017	**New**
Submit to Parliament amendments to the Banking Law to reintroduce the missing provisions regarding: (i) governance and oversight, including the NBKR's Board composition; (ii) judicial review and nonsuspension of the NBKR's decisions; (iii) powers of the NBKR in the resolution process and liquidation process; and (iv) lending to non-supervised institutions.	End-July, 2017	**New**
Enact and publish in the official gazette amendments to the Banking Law to reintroduce the missing provisions regarding: (i) governance and oversight, including the NBKR's Board composition; (ii) judicial review and nonsuspension of the NBKR's decisions; (iii) powers of the NBKR in the resolution process and liquidation process; and (iv) lending to non-supervised institutions.	End-December, 2017	**New**

Attachment I. Fiscal Measures to Close the Gap

Type of Measure	Details	Estimated contribution In percent of GDP 2016	2017
Tax policy		**0.1**	**0.6**
	Revise VAT applicable to certain types of exports.		
	Establishment of rates for export customs duties for shell limestones and harmonize of FEZ with EEU.		
	Raise excise labeling rate for beer.		
	Raise excise rates on alcohol		
	Establishment of minimal retail prices for cigarettes		
	Increase tax rate for luxury tax.		
	Introduce labels for some Kyrgyz clothing items to reduce the informal economy.		
	Introduce a minimum level of target prices for imports from EEU.		
	Cancel tax exemptions in the context of the harmonization with the EEU.		
	Remove prohibition of tires imports from third countries		
	Revision of property taxation		
Tax administration		**0.4**	**0.7**
	Strengthen VAT administration for entrepreneurs by introducing electronic invoices and simplifying procedures		
	Strengthen administration of tax collection on a patent basis from cargo and passenger carriers by carrying joint inspection of the road patrol and STS.		
	Introduce new administrative tools for local taxes, including giving powers to local authorities to establish additional coefficients and expand the range of existing rates.		
	Improve customs payments through harmonization procedure, closer relationships with third countries and better information system.		
	Fight against violation of customs duties and illegal imports of goods and vehicles, and collection of arrears by improving the monitoring of operations and procedures and pursuing unscheduled inspections.		
	Improve administration of tax and non tax payments by increasing the number of scheduled and non scheduled audits.		
	Speed up litigation cases.		
	Speed up the collection of tax arrears.		
PFM		**0.0**	**0.0**
	Improve efficiency of the payment system through savings in procurement operations.		
Expenditure		**1.7**	**0.9**
	Streamlining of non priority goods and services.		
	Reducing domestically financed capital expenditure.		
	Abrogation of the employees' health promotion fund.		
	Reducing externally financed capital expenditure		
Nontax revenues		**0.3**	**0.1**
	Higher profits from the NBKR (already received).		
	Privatization of state property.		
	Increase in proceeds from the leasing of state property and dividends.		
	Sales of mineral deposits.		
	Reimbursement of taxes from criminal procedures and fraud.		
		2.6	2.3
		0.4	1.2
Memo item:			
2016 Nominal GDP (in billions of soms)	452.0		
2017 Nominal GDP (in billions of soms)	486.2		

Sources: Authorities data and IMF staff calculations.

Attachment II. Kyrgyz Republic: Technical Memorandum of Understanding

December 5, 2016

Introduction

This memorandum defines the quantitative performance criteria, indicative targets and adjustors, and establishes the content and frequency of the data to be provided to IMF staff for program monitoring related to the economic program supported by an arrangement under the Extended Credit Facility (ECF). The indicators presented in Table 1 of the Letter of Intent dated December 5, 2016 reflect the understandings on quantitative performance criteria reached between the authorities of the Kyrgyz Republic and staff of the IMF.

Performance Criteria and Indicative Targets

A. Definitions and Concepts

1. Test dates. Quantitative performance criteria are set semi-annually starting June 30, 2015 through December 31, 2018, and are to be met at the end of each period.[1]

2. 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.

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

4. 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.

[1] The TMU paragraphs are numerated as of November 1st, 2016.

5. 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.

6. The stock of **external payment arrears** for program monitoring purposes is defined as the

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

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

8. Variable interest rate. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD LIBOR is 3.34 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -250 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -300 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -100 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD LIBOR is -200 basis points.[2] Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added.

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 as of February 17 of 2015 exchange rate of KGS 60.7523 = US$1. The corresponding cross exchange rates and program gold price for the duration of the program are provided in Table 2.

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

B. Quantitative Performance Criteria

Floor on net international reserves of the NBKR in convertible currencies

Definitions

10. Net international reserves (NIR) of the NBKR. The floor on NIR will be calculated as the difference between total international reserve assets and total international reserve liabilities of the NBKR in convertible currencies. Total international reserve assets of the NBKR are defined as the NBKR holdings of monetary gold, holdings of SDRs, reserve position in the IMF, and any holdings of convertible foreign currencies in cash or with foreign banks, and debt instruments issued by nonresidents that are liquid. For program purposes, convertible foreign currencies refer only to U.S. dollar, Euro, British Pound, Japanese Yen, Swiss Franc, Australian Dollar, and Canadian Dollar. Accrued interest on deposits, loans, and debt securities are included in reserve assets and liabilities, correspondingly. Reserve assets pledged as collateral or otherwise encumbered, capital subscriptions in foreign financial institutions, deposits of resident financial institutions (commercial banks and the Russia-Kyrgyz Development Fund) in foreign currency and illiquid assets of the NBKR are excluded from NIR. Also excluded are net forward positions, defined as the difference between the face value of foreign-currency denominated 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 and non-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 and non-resident institutions.[3] 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$ 1,425 million on June 30, 2016.

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

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

Adjustors

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

Ceiling on the net domestic assets of the NBKR

Definitions

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

14. Thus defined, NDA consist of (a) net claims to the general government from the NBKR; (b) net claims to other depositary corporations by the NBKR; (c) net claims on other financial corporations; and (d) all other net assets of the NBKR (other items net). Thus defined, the stock of NDA amounted to minus KGS 28,090 million on June 30, 2016.

Adjustors

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

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

Definitions

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

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

- The change in the stock of net claims of foreign governments, banking systems, and nonfinancial institutions and households on the general government;
- Net transactions in equity, i.e., any new sales net of purchases of shares;
- Net foreign loans disbursed to the general government for budgetary support; and
- Net foreign loans disbursed to the general government for PIP financing.

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 budget 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 budget will be adjusted downward to the full extent of any shortfall in program loans, as given in Table 3 and upward/downward to the full extent that PIP loans are more/less than PIP loans given in Table 3.

Ceiling on the present value of new external debt contracted or guaranteed, 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), as amended by Decision No. 15688–(14/107), point 8, adopted December 5, 2014, and reads as follows:

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

- 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

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

- Under the definition of debt set out in point 8 (a) in the above mentioned Executive Board Decision, 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. A performance criterion (ceiling) applies to the present value (PV) of new external debt, contracted or guaranteed by the public sector with original maturities of one year or more. The ceiling applies to debt contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended. The ceiling is subject to an adjustor defined below.

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

23. 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.

24. 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.

25. **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

26. **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

27. 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

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

Ceiling on the new non concessional external debt contracted or guaranteed

29. An indicative target applies to the contracting or guaranteeing by the public sector of nonconcessional external debt, i.e. external debt with grant element of less than 35 percent, except normal short-term import-related credits and the NBKR international reserve liabilities.

Ceiling on introducing new and renewal of existing tax exemptions

30. An indicative target applies to any change in law, or regulation, that expands the eligibility for, or value of, existing tax deductions, exemptions, or credits, or introduces new tax deductions, exemptions, or credits, or reduces tax rates, or reduces the number of taxpayers subject to tax.

Reporting Requirements Under the Arrangement

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

D. Analytical Balance Sheet of the NBKR

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

E. Monetary Survey

33. Monthly banking system data, in the form of monetary surveys of the banking sector and other depository corporations, will be reported to the IMF by the NBKR within 16 days of the end of the month. The information provided will clearly identify the following items: net foreign assets and net domestic assets of the banking system, net credit from the banking system to the general government disaggregated by the state government, and the social fund, 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.

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

F. International Reserves and Key Financial Indicators

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

G. External Debt

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

H. Budgetary and Extra Budgetary Data

37. 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, as well as the amount of tax exemptions.

I. Balance of Payments Data

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

J. Other General Economic Information

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

Table 1. Ten Largest SOE's

(Included in the public sector)

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

Sources: Authorities data and IMF staff calculations.

Table 2. Program Cross Exchange Rates and Gold

Abbreviation	Currency Name	Currency/US$	US$/Currency
AUD	Australian Dollar	1.2926	0.7736
AMD	Armenian Dram	479.6865	0.0021
CAD	Canadian Dollar	1.2525	0.7984
CNY	Chinese Yuan	6.2477	0.1601
CNH	Chinese Yuan	6.2517	0.1600
JPY	Japanese Yen	119.0568	0.0084
KZT	Kazakh Tenge	185.0512	0.0054
KWT	Korean won	1,100.5851	0.0009
KWD	Kuwati dinar	3.3824	0.2956
KGS	Kyrgyz Som	60.7523	...
NOK	Norweigan Crown	7.6020	0.1315
RUB	Russian Ruble	62.6635	0.0160
SAR	Saudi Rial	4.6076	0.2170
SGD	Singapore Dollar	1.3585	0.7361
SEK	Swedish Crown	8.4426	0.1184
CHF	Swiss Franc	0.9293	1.0760
AED	UAE Dirham	3.6779	0.2719
GBP	UK Pound Sterling	0.6508	1.5366
SDR	SDR	0.7096	1.4092
XAG	Silver	0.0579	17.2700
BYN	Belarusian Ruble	1.5318	0.6528
EUR	Euro	0.8757	1.1420
XAU	Gold (US$/troy ounce)	1,229.2500	...

Sources: Authorities data and IMF staff calculations.

Table 3. Projected Budget Support, PIP and Amortization

(In millions of U.S. dollars)

	2016	2017			
	December	March	June	September	December
Program grants	40.8	1.8	13.9	4.3	27.2
Program loans	25.7	0.0	11.0	1.7	24.2
Grants in-kind	28.8	21.3	21.3	21.3	21.3
PIP grants excl. grants in-kind	38.2	32.7	32.7	32.7	32.7
PIP grants incl. grants in-kind	67.0	54.0	54.0	54.0	54.0
Other grants	0.0	0.0	0.0	0.0	0.0
PIP loans	61.0	96.4	96.4	96.4	96.4
PIP loans, excl. onlending	2.7	56.1	56.1	56.1	56.1
Amortization of public external debt	23.8	19.3	19.3	19.3	19.3
Interest payments	12.0	13.3	13.3	13.3	13.3

Table 3a. Projected flows of the Russia-Kyrgyz Fund

(In millions of U.S. dollars)

	2016	2017			
	December	March	June	September	December
Inflows	15.0	100.0	80.0	80.0	40.0
Lending	65.0	50.0	35.0	40.0	40.0
Net	-50.0	50.0	45.0	40.0	0.0

Table 4. Reporting Requirements and Frequency Under the Arrangement

Reporting Agency	Data	Frequency	Timing
NBKR	Analytical balance sheet of NBKR at actual and program exchange rates	Daily	The following working day
NBKR	Monetary surveys of the banking sector and other depository corporations at actual and program exchange rates	Monthly	Within 16 days of the end of each month
NBKR	The amount of holdings of treasury bills, treasury bonds and other securities issued by the state government	Monthly	Within 7 days of the end of each month
NBKR	The gross and net international reserves Net foreign financing flows	Monthly	Within 20 days of the end of each month
NBKR	Reserve composition by currency and instrument	Quarterly	Within 10 days of the end of each quarter
NBKR	Nominal exchange rates Foreign exchange interbank market turnover Volume of NBKR foreign exchange sales and purchases in the domestic interbank market on a daily basis	Daily	The following working day
NBKR	Treasury bill yields and the amount of treasury bill sales and redemptions, and operations with other parties	Weekly	Every Monday
NBKR	Balance sheet and income statement of banks (aggregated); data on capital assessment of the commercial banks and the data on the main factors of the loan portfolio's growth of the banking system and separately of the group of banks with a significant share of the Kazakh capital	Monthly	Within 25 days of the end of each month
NBKR	Balance sheet and income statement by individual bank and banking groups; sectoral distribution of loans and NPLs by currency and by bank; restructured and renewed loans; largest exposures by bank; loan classification by banks and by groups;	Monthly	Within 25 days of the end of each month
NBKR	Nonperforming loans for microfinancing organization and credit unions	Quarterly	Within 20 days of the end of each quarter
NBKR	Indicators of financial soundness of the banking system (capital adequacy, liquidity, asset quality, earning and profitability, loans and deposits ratios, foreign currency exposure and dollarization)	Monthly	Within 25 days of the end of each month
State Property Fund	Balance sheets of the 10 largest SOEs	Annually	Within 91 days after the end of the year
MOF	Revenues, expenses , net lending and on-lending of financial assets and liabilities of the central government	Monthly	Within 26 days of the end of each month
MOF NBKR	Disbursements, principal and interest payment (external debt) Contracting and guaranteeing of medium- and long-term external loans	Monthly	Within 21 days of the end of each month
MOF	Details (amount, currency, and financing terms) on new loans contracted on public external debt, including SOEs.	Quarterly	Within 25 days of the end of each quarter
Social Fund	Social Fund budget execution report	Monthly	Within 30 days of the end of each month
MOF	Disbursements and use under the public investment program, budgetary grants, and grants in kind.	Monthly	Within 30 days of the end of each month
NBKR	Current account and capital account data	Quarterly	Within 90 days of the end of each quarter
NBKR	Foreign trade data	Monthly	Within 60 days of the end of each month
NBKR	Remittances by country of origin and currency.	Monthly	Within 45 days of the end of each month
NSC	Consumer Price Index by category	Monthly	Within 15 days of the end of each month
NSC	GDP	Monthly	Within 30 days of the end of each month

INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

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

December 5, 2016

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

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RELATIONS WITH THE FUND

(As of September 30, 2016)

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)	88.77	99.97
Reserve Tranche Position	0.03	0.04

SDR department:	**SDR million**	**% Allocation**
Net cumulative allocation	84.74	100.00
Holdings	133.07	157.03

Outstanding purchases and loans:	**SDR million**	**% Quota**
ESF Arrangements	18.32	20.63
RCF Loans	17.76	20.00
ECF Arrangements	99.96	112.57

Latest financial arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Apr 08, 2015	Apr 07,2018	66.60	28.54
ECF	Jun 20, 2011	Jul 07, 2014	66.60	66.60
ESF	Dec 10, 2008	Jun 09, 2010	66.60	33.30

Projected payments to Fund [1/]
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2016	2017	2018	2019	2020
Principal	5.68	18.27	20.68	17.52	18.71
Charges/Interest	0.00	0.04	0.02	0.20	0.16
Total	5.68	18.30	20.70	17.72	18.88

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

Status of HIPC and MDRI assistance

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

Safeguards assessments

An update assessment with respect to the new ECF approved by the IMF Board on April 8, 2015 was completed on October 5, 2015. The assessment concluded that the National Bank of the Kyrgyz Republic (NBKR) continues to have significant vulnerabilities in the legal structure, particularly in governance arrangements. The audit committee's authority remains limited, as it only has an advisory role vis-à-vis the NBKR Board. Further, the internal audit mechanism is in need of improvement. The Banking Law, which was adopted by Parliament in September 2016, did not address all safeguards recommendations. Furthermore, the President requested amendments before signing the Law that claw back some of the improvements in central bank independence in the version originally approved by the Parliament. Key outstanding safeguards concerns include the composition of the NBKR Board, which is comprised only of executive members. Previous assessments were completed in October 2011, April 2009, October 2005, and January 2002.

Exchange rate arrangements

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

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

Article IV consultations

The Kyrgyz Republic is on the 24-month consultation cycle. The 2015 Article IV consultation discussions were held in September 2015 and were completed by the Executive Board in December 2015 (see Country Report No. 16/55).

FSAP participation and ROSC assessment

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

Resident representative

The tenth resident representative of the Fund in the Kyrgyz Republic, Mr. Said, took his post in Bishkek in March 2016.

RELATIONS WITH THE WORLD BANK GROUP

(As of October 31, 2016)

The WBG Board of Executive Directors reviewed the joint WB/IFC Country Partnership Framework (CPF) for the Kyrgyz Republic for the period FY14–17 on July 25, 2013 and the Performance and Learning Review of the CPF on March 22, 2016. The World Bank has launched the preparation of the Systemic Country Diagnostic, which will provide analytical underpinnings for the new CPF for FY18-21.

The overarching objective of the CPF for FY14-17 is strengthened governance. This governance-oriented approach focuses on three dimensions of the relationship between the state and the citizen, which correspond to three broad areas of engagement—public administration and public service delivery, business environment and investment climate, and the management of natural resources and physical infrastructure. IFC's role in the CPF for FY14-17 is to support the development and diversification of the private sector, contributing to country's greater competitiveness, and improving employment opportunities.

World Bank Program: Since the Kyrgyz Republic joined the World Bank in 1992, the Bank has approved US$1.4 billion for International Development Association (IDA) funded projects and Recipient Executed Trust Funds (RETF), out of which US$1.13 billion has been disbursed. Fifty IDA investment operations for about US$1.3 billion have been completed and closed, and eleven IDA investment operations for US$207.85 million are ongoing.

From 1992 until 2000, the Kyrgyz portfolio had a significant focus on budget support; since 2001, however, there has been a gradual shift toward investment projects until 2010. To achieve macroeconomic stability in the country after political turmoil in April 2010, the Kyrgyz government requested the Bank to provide budget support. There have been three budget support operations since then and a multiyear programmatic budget support program had been envisioned until FY17. Though the first in a series of two Programmatic Development Policy Operations was approved by the Board on July 7, 2016, the second Programmatic Development Policy Operation scheduled for FY17 would be delivered once key policy reforms agreed upon with Government are implemented, including key measures aimed at enhancing efficiency, viability and sustainability of the energy sector.

Lending Program: Two operations have been delivered in FY17: the Governance and Competitiveness Development Policy Operation (US$24 million equivalent) and the Sustainable Rural Water Supply and Sanitation Project (US$23.5 million equivalent). One operation - the Integrated Dairy Productivity Improvement Project (US$5 million equivalent) - is in pipeline and scheduled for Board in January 2017. Additional operations to be delivered by the end of FY17 are being discussed with the Kyrgyz government, depending on progress on energy sector reforms agreed upon under previous DPOs.

Trust funds: In addition to the IDA portfolio, the Kyrgyz program includes a significant number of co-financing and stand-alone trust funds (TFs). The active RETFs Portfolio has a total value of about US$95.7 million, out of which US$22.5 million has been disbursed. Four sectors—Health, Education, Water, Environment and Natural Resources—receive most of the TFs. The largest trust funds are the Agriculture Productivity and Nutrition Improvement Project (US$38 million equivalent), the Kyrgyz Global Partnership for Education (US$12.7 million equivalent), the Swiss TF for the Kyrgyz Second Health and Social Protection Project (US$11.9 million equivalent), the Kyrgyz Health Results Based Financing (US$11 million equivalent), the National Water Resources Management Project (US$7.8 million equivalent), and the Integrated Forest Ecosystem Management (US$4.1 million equivalent). TFs are mainly provided to co-finance IDA operations and to support capacity-building activities. The main bilateral contributors to the TFs have been Switzerland and Russia.

Analytical advisory activities: These include among others capacity building to Energy Regulator, tax reforms and gender, strengthening urban resilience, small hydropower development, next generation land administration, and efficient heating technologies.

IFC program: Since becoming a member of IFC in 1993, the Kyrgyz Republic has received commitments totaling more than US$119.5 million from IFC's own funds to finance 38 long term finance projects in the financial sector, including banking and microfinance, mining, agribusiness, as well as in the pulp and paper sectors. In addition, since its inception in 2007, IFC's Global Trade Finance Program has supported a total of US$1.1 million in trade flows. As of June 30, 2016, IFC's committed portfolio stood at US$16.9 million, which includes investments in financial markets and manufacturing sectors. IFC prioritizes activities aimed at improving the investment climate, increasing access to finance and promoting corporate governance, while at the same time exploring a greater role in energy efficiency and renewable energy and developing opportunities for public private partnerships jointly with IDA. In the banking sector, IFC aims to increase access to finance for MSMEs by improving regulatory framework, strengthening local financial institutions, expanding microfinance organizations, and providing financing for MSME financing to local banks. In the real sector, IFC aims to improve corporate business practices, while looking for emerging opportunities to invest across variety of sectors, particularly in agribusiness, mining, and infrastructure.

IFC advisory programs implemented in the Kyrgyz Republic focus on: i) improving financial markets infrastructure, specifically credit information sharing systems and risk management; (ii) promoting the institutional and capacity building of financial intermediaries; (iii) promoting microfinance and housing microfinance development; (iv) enhancing the investment climate and tax administration; (v) improving corporate governance of local companies, including SMEs and succession planning; (vi) developing agri-finance and agricultural value chains with focus on dairy; (vii) helping producers improve food safety standards; and (viii) developing public-private partnership (PPP) projects, currently in the health sector.

MIGA program: MIGA's current portfolio in the Kyrgyz Republic does not have any projects. The last one project, financed by Austrian and Italian investors, in support of the country's manufacturing and services sector expired in June 2015.

ICSID: The Kyrgyz Republic is not a member of ICSID. However, the Kyrgyz Republic has been a party to three arbitration cases before ICSID based on bilateral investment treaties and its investment law. One of the three cases concerns a tourist resort and is currently pending before ICSID. The other two cases are concluded: one of them was settled in 2015 and the other case awarded compensation to the investor claimant in 2009. That award was subsequently subject to enforcement proceedings, which led to the execution of assets of the Kyrgyz Republic in Canada.

RELATIONS WITH THE ASIAN DEVELOPMENT BANK (ADB)

(As of November 30, 2016)

The Kyrgyz Republic joined ADB in 1994. ADB approved the current Country Partnership Strategy (CPS) 2013–17 for the Kyrgyz Republic in August 2013. The CPS is aligned with the National Sustainable Development Strategy, 2013–2017 approved by the President of the Kyrgyz Republic in January 2013 (NSDS). The overarching goal of the CPS is poverty reduction through inclusive economic growth. The CPS supports the government in addressing key constraints to growth and equitable access to economic opportunities. It focuses on: (i) public sector management for private sector development; (ii) transport and logistics, focusing on rehabilitation of a regional corridor and maintenance of the road network.; (iii) the energy sector, focusing on rehabilitating and upgrading a major hydropower plant, and institutional and technological reform to improve sector efficiency; (iv) education and training, focusing on improvement of the availability and quality of a skilled workforce, and employability of the population; and (v) water supply and sanitation (WSS), responding to the government's request and commitment to sector reform. ADB has been active in these areas and within each sector will focus more strongly on addressing regional disparities. The Country Operations Business Plan (COBP) 2016–2018 was endorsed by the Board in September 2015. The COBP 2017–2019 is to be approved by the end of 2016.

ADB is one of the major development partners in the country. The Kyrgyz Republic is a Group A developing member country and has access to Asian Development Fund (ADF) resources and concessional ordinary capital resources (OCR). The indicative ADF and concessional OCR resource allocation for 2016–2018 is US$283.8 million, including US$60.0 million from sub-regional pool ($30.00 million loan and $30.00 million grant) which has been secured for the Toktogul Rehabilitation Project, Phase 3, approved in September 2016, and $157.00 million in co-financing for the Toktogul Rehabilitation Project, Phase 3 and CAREC Corridors 1 and 3 Connector and Road Maintenance Project, Phase 1, also approved in September 2016. Thus, the 2016 allocation ($217.61) is going to be the highest since start of the operations in the Kyrgyz Republic in 1994. The final allocation will depend on available ADF resources and concessional OCR, and the outcome of the country performance assessments. In addition, co-financing and funding from other sources, including the ADF and concessional OCR sub-regional pool, will be explored. The 2014 debt distress classification of the Kyrgyz Republic was assessed as moderate risk of debt distress. In accordance with the ADF grants framework, the country is to receive 50 percent of its country allocation in grants during 2015–16, subject to a 20 percent volume discount of the grant portion of the country allocation. The nonlending program includes US$5.85 million of technical assistance grants for 2016–2019.

As of 30 November 2016, the country received US$1,655.9 million consisting of 41 loans for US$1,082.6 million and 37 grants for US$601.8 million, including two nonsovereign loans for US$20.0 million and 8 Japan Fund for Poverty Reduction grants for US$8.5 million. About 22 percent

(US$324.0 million) of the total funding resources had been provided through thirteen program operations to support policy reforms and facilitate economic transition.

As of 30 November 2016, the total portfolio included 16 projects totaling US$867.15 million (net amount) which were being implemented through 14 ADF loans (US$510.3 million) and 15 ADF grants (US$355.3 million) and one grant financed by the Japan Fund for Poverty Reduction grant (US$1.5 million). Transport and energy are the top two sectors in terms of ADB financing volume accounting for about 70 percent of the total active portfolio. In 2016, one program and two projects were approved: Second Investment Climate Improvement Program (Subprogram 2) for a total amount of $25 million ($12.5 million loan and $12.5 million grant); Toktogul Rehabilitation Phase 3 Project for a total amount of $110 million ($60 million loan and $50 million grant); and Central Asia Regional Economic Cooperation Corridors 1 and 3 Connector Road Project for a total amount of $95.1 (SDR41.905 million loan and $36.720 million grant).

ADB has also provided 90 technical assistance (TA) projects amounting to US$51.9 million as of today. ADB also provides TA through the regional technical assistance facility. Among the most recent assistance is technical assistance for developing an e-procurement strategy for the Kyrgyz Republic, Support for Strategic Assessment of the Kyrgyz Economy, and Strengthening Government Capacity for Managing Development Projects. Two TAs were approved in 2015: project Advisory TA (PATA) for Accession to the Eurasian Economic Union—Capturing the Opportunities and Addressing the Risks for US$0.5 million, and project Preparatory TA (PPTA) Central Asia Regional Economic Cooperation Corridors 1 and 3 Connector Road for US$1 million.

The year-end performance of ADB’s portfolio was satisfactory in 2016 with 90 percent projects on track. Contract awards and disbursements as of 30 November 2016 reached US$22.4 million and US$29.4 million (22 percent and 78 percent of year’s projections), respectively.

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

By the end of 2015, cumulative direct value-added official co-financing for the Kyrgyz Republic since 1997 amounted to US$216.6 million for eleven investment projects and US$4.13 million for eight technical assistance projects.

ADB private sector operations in the Kyrgyz Republic began in 2012 with the signing of a US$10 million SME loan to the Kyrgyz Investment and Credit Bank. ADB's Trade Finance Program

(TFP) fills market gaps in trade finance by providing guarantees and loans through over 200 partner banks in support of trade. In December 2012, three banks in the Kyrgyz Republic signed TFP agreements including Demir Kyrgyz International Bank, Kyrgyz Investment and Credit CJSC, and RSK Bank OJSC. In 2015, a US$10 million Senior Unsecured Loan to Bai Tushum Bank for Broadening Access to Finance was approved.

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

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

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

(As of November 1, 2016)

Overview of EBRD activities to date

The Bank has been actively supporting the transition in Kyrgyz Republic since 1995. From 1995 to the end of September 2016, the Bank signed 145 projects accounting for a net cumulative business volume of €637 million. The Bank's portfolio amounted to €241 million in 65 active projects. The current private sector portfolio ratio (as a percentage of the total portfolio) is 65 percent which is well above the Bank's 60 percent mandated ratio.

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

Fostering sustainable growth by strengthening regional cross-border linkages:

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

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

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

Enabling SMEs to scale-up and bolster competitiveness:

The Bank's operations in support of local SMEs took advantage of the ETC Initiative and recently created SME Department, which was instrumental in enabling the Bank to deliver a number of small projects with significant transition impact, particularly in the areas of corporate governance and business conduct. In 2015 and first nine months of 2016 the Bank signed eight corporate sector projects all with local SMEs.

- Under the Risk-sharing Facility (RFF), jointly with local partner banks the Bank supported expansion to Jalalabad of one of the leading flour producing companies; financed one of the largest manufacturing enterprises in the country supplying radiators and other spare parts to its partners in Russia and Kazakhstan helping to improve health and safety standards at the site as well as modernize production facilities; supported a local hotel modernization with energy efficiency investment; help local resort to help modernize its wastewater treatment facility with the aim to reduce energy consumption and improve the resort's area and facilities; provided financing to a local fuel trader to expand the network of fuel stations across the country; and supported a local producer of confectionery in the southern area to refurbish its manufacturing workshop.

- Improving access to finance by developing local financial sector remained a priority for the Bank in supporting SMEs. In Jan-September 2016 the Bank signed eight new loan agreements with local banks and MFIs. Some of the loans have been in local currency as part of the Bank's Local Currency and Local Capital Market Initiative, a risk-sharing program supported by donor grants to catalyze local currency lending in the early transition countries (ETC).

- Loans to local financial institutions also included three credit lines to three participating financial institutions (KICB, Bai Tushum and First Micro CerditCompany) provided under the US$35 million Kyrgyz Sustainable Energy Efficiency Facility II (KyrSEFF) which is include not only energy efficiency but also water efficiency component; KYRSEFF II is an example of an integrated approach combining policy dialogue, financing and TC-supported capacity building at local intermediaries, benefiting from donor-funded investment incentives. KyrSEFF offers to provide financing for small-size energy efficiency improvements in the residential, service, agribusiness, SME, and industry sectors. It is expected to include another three are expected to be included under Kyrseff II before the end of the year (Demirbank, Kompanion and Optima)

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

- EBRD works with international advisers with more than 15 years' experience in a particular industry or field. In visits over the course of 12–18 months, the advisers strive to transfer their know-how to receptive managers. The teaching of international best practices is tailored to the needs of the client, and can cover anything from restructuring, to marketing and design or financial management. EBRD has undertaken 63 projects in the Kyrgyz Republic with companies in manufacturing, ICT, tourism, and agriculture. The majority of projects focused on improving marketing and sales, organization, operations, and financial management. The total donor commitment for these projects was approximately €3.6 million.

- EBRD helps companies work with qualified local consultants on a range of projects, covering concerns from market research to strategic planning, quality management and certification or energy efficiency and environmental management. These projects are undertaken on a cost-sharing basis. EBRD also work with the local consultancy sector, supporting professional capacity building to develop the skills of local consultants to enable them to serve the SME sector on a sustainable basis, and to introduce more sophisticated advisory services in areas such as quality management and energy efficiency. As of 1 November 2016, EBRD in Kyrgyz Republic has undertaken 1083 projects with 239 local consultants. More than 65 percent of the enterprises assisted are located outside the main cities. Despite the difficult business climate, turnover increased in nearly 66 percent of EBRD beneficiary companies in the year following project completion, while 57 beneficiaries secured external investments, for a total investment of €31 million. EBRD's advisory work with enterprises is funded by the Swiss and the U.S. Governments and the EBRD Shareholders Special Fund which have contributed €4.5 million, €0.7 and €1.6 million respectively.

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

- In October 2016, EBRD signed EUR 4 million loan to JSC Oshelectro distribution company. The Bank proceeds to be used for rehabilitation and modernization of low and medium voltage distribution networks in two south regions of Kyrgyzstan. The project also incorporates installation of the advance metering system with meters capable of remote disconnection and meter reading. EBRD loan proceeds will be complemented by EUR 1 million grant financing from EU /Investment Fund for Central Asia (IFCA).

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

- Under this framework, the Bank signed new water and wastewater projects for Tokmok, Naryn and Batken in 2015. The new loans in total amount of €5.5 million (€2.0 million for Tokmok, €2.0 million for Naryn and €1.5 million for Batken) are co-financed by capital grants in total amount of €8.8 million (€3.1 million for Tokmok, €3.2 million for Naryn and €2.5 million for

Batken) from the European Union's Investment Facility for Central Asia (EU IFCA), Swiss State Secretariat for Economic Affairs (SECO) and the EBRD Shareholder Special Fund (SSF) respectively for Tokmok, Naryn and Batken and will be used to finance critical water and wastewater infrastructure improvements in these cities. The capital expenditure grants are required to meet conditions for non-concessional lending and mitigate affordability constraints. Projects in the water sector enabled the Bank to make progress with water tariff reforms, implementing IFRS accounting standards, and promoting efficiency in the water companies.

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

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

Policy dialogue:

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

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

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

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

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

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

Since October 2015, on behalf of the Kyrgyz Government and with support from the IFI and donor community, the EBRD is playing a leading role in implementing the Climate Investment Funds' Pilot Program for Climate Resilience (PPCR) in the Kyrgyz Republic. PPCR provided US$ 1.5 million technical assistance grant to help the Kyrgyz authorities mainstream climate change considerations into development planning through:

(i) establishing a well-functioning climate finance coordination mechanism for managing flow of international climate and development finance for investment projects; and

(ii) designing a business plan (Strategic Programme for Climate Resilience) with viable and financeable investment projects in sectors particularly vulnerable to climate change, including energy, water resources, agriculture and transport, to attract funding from various sources, including the Green Climate Funds (GCF), the Climate Investment Funds (CIF), and MDBs as well as development partners for their implementation.

- The Bank, with support of national and international climate finance experts, is implementing a TC assessing current capacities to manage climate finance and developing a framework for structuring viable investment projects that are in line with country's debt sustainability principles. Furthermore, in the context of this work, the Bank is assessing how the use of concessional climate co-finance could support the Kyrgyz Government in funding major infrastructure and development investment priorities, while meeting the IMF debt sustainability limits.

- The Bank is also providing support in structuring an institutional capacity building programme to strengthen country's preparedness for accessing and managing climate finance.

- The Bank is continuing dialogue with the authorities and private sector entities to identify new business opportunities that could be supported by international climate finance funds, MDBs and development partners.

TECHNICAL ASSISTANCE PROVIDED BY THE FUND

(February 2003–September 2016)

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

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

Dept.	Subject/Identified Need	Timing	Counterpart
	Tax Administration Enforcement (Module 6—TPA TTF)	November 19–23, 2013	Ministry of Finance, State Tax Service, State Customs Service
	Tax Administration Enforcement (Module 6—TPA TTF)	January 8–22, 2014	Ministry of Finance, State Tax Service, State Customs Service
	Public Finance Management	May 2–13, 2014	Ministry of Finance
	Public Finance Management	December 5–18, 2014	Ministry of Finance
	Public Finance Management (	April 23–May 7, 2015	Ministry of Finance
	Tax Policy (Impact of the Accession to the EEU)	April 29–May 13, 2015	Ministry of Economy
	Public Finance Management (Fiscal risk disclosure)	September 17–October 1, 2015	Ministry of Finance
	Public Investment Management Assessment Information-Gathering	December 14–16, 2015	Ministry of Finance, Ministry of Economy
	Public Investment Management Assessment	January 27–February 10, 2016	Ministry of Finance, Ministry of Economy
	Managing Government Wage Expenditure	March 15–28, 2016	Ministry of Finance, Ministry of Labor
	Treasury and Accounting Reform and Fiscal Risks Disclosure	September 19–30, 2016	Ministry of Finance
MFD/ MCM	Review of the Capital Adequacy and Dividend Arrangements for the National Bank of the Kyrgyz Republic	August 18–28, 2003	National Bank of the Kyrgyz Republic
	Review of Debt Restructuring Operation and 2003 Financial Reporting	October 28–November 10, 2003	National Bank of the Kyrgyz Republic

Dept.	Subject/Identified Need	Timing	Counterpart
	Monetary Operations, Banking System Development, and Central Bank Autonomy	September 13–23, 2004	National Bank of the Kyrgyz Republic
	Review of NBKR Debt Restructuring Arrangements, Options for Deepening Financial Markets and Amendments to the NBKR Law	December 7–18, 2004	National Bank of the Kyrgyz Republic
	Payments System	January 25–February 7, 2005 April 12–25, 2005 October 18–27, 2005 February 20–March 5, 2006 October 16–27, 2006, March 3–17, 2007 December 9–15, 2007 May 19–June 3, 2008 February 23–March 11, 2009 September 22–October 9, 2009	National Bank of the Kyrgyz Republic
	Bank Supervision and Regulation	February 23–March 8, 2005 May 18–28, 2005 July 17–28, 2005 October 02–13, 2005 January 15–26, 2006 February 12–23, 2006 March 20–30, 2006	National Bank of the Kyrgyz Republic

Dept.	Subject/Identified Need	Timing	Counterpart
	FSAP update	September 5–15, 2005 October 10–23, 2006	National Bank of the Kyrgyz Republic
	AML/CFT	April 19–25, 2006	National Bank of the Kyrgyz Republic
	Monetary Framework, Operations, and Liquidity Management	June 25–July 15, 2007	National Bank of the Kyrgyz Republic
	Islamic Banking Framework	February 4–12, 2008	National Bank of the Kyrgyz Republic
	Assessment of the Government Primary and Secondary Market Arrangements in the Kyrgyz Republic	May 6–16, 2008	National Bank of the Kyrgyz Republic
	Public Debt Management	July 14–31, 2009	Ministry of Finance and others
	Risk Management within the Islamic Banking Framework	July 6–15, 2009	National Bank of the Kyrgyz Republic
	Financial Stability Analysis and Stress Testing	March 10–18, 2010	National Bank of the Kyrgyz Republic
	Improving the Bank Resolution Framework	March 31–April 9, 2010	National Bank of the Kyrgyz Republic
	Bank Resolution	May 31–June 3, 2010	National Bank of the Kyrgyz Republic
	Bank Resolution	July 26–August 1, 2010	National Bank of the Kyrgyz Republic
	Bank Resolution	August 10–19, 2010	National Bank of the Kyrgyz Republic

Dept.	Subject/Identified Need	Timing	Counterpart
	Reserve Management	January 28–February 9, 2013	National Bank of the Kyrgyz Republic
	Operational Advice on Improving the Monetary Policy Framework	March 22–29, 2012	National Bank of the Kyrgyz Republic
	FSAP Scoping Mission	April 1–5, 2013	National Bank of the Kyrgyz Republic
	FSAP update	July 1–15, 2013	National Bank of the Kyrgyz Republic
	Operational Advice on Improving the Monetary Policy Framework	February 3–14, 2014	National Bank of the Kyrgyz Republic
	Operational Advice on Improving the Monetary Policy Framework	April 20–28, 2015	National Bank of the Kyrgyz Republic
	Strengthening Near-Term Modeling and Forecasting Capacities	April 18–29, 2016	National Bank of the Kyrgyz Republic
	Medium-Term Debt Management Strategy	April 20–28, 2016	Ministry of Finance
	Strengthening Banking Supervision	May 24–June 1, 2016	National Bank of the Kyrgyz Republic
LEG	Review of Bank Legislation	March 1–4, 2004 April 26–May 6, 2004	National Bank of the Kyrgyz Republic
	Review of Tax Legislation	July 27–August 5, 2004	Ministry of Finance
	Assisting in drafting Tax Code	December 4–10, 2005	Prime Minister's Office

Dept.	Subject/Identified Need	Timing	Counterpart
	AML/CFT Follow-up	July 2–6, 2007	National Bank of the Kyrgyz Republic
	AML/CFT Follow-up	September 3–6, 2007	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	AML/CFT Framework	February 11–15, 2008 March 3–7, 2008	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	Review of the Draft Tax Code	April 22–30, 2008	Ministry of Finance
	AML/CFT capacity building	March 25–31, 2009	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	AML/CFT Follow-up	May 18–29, 2009	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	AML/CFT Follow-up	August 3–14, 2009	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	AML/CFT follow-up	September 22–25, 2009	State Financial Intelligence Service
	AML/CFT Follow-up	October 5–16, 2009	National Bank of the Kyrgyz Republic

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

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

Dept.	Subject/Identified Need	Timing	Counterpart
	AML/CFT Follow-up	October–November 2015	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	January 2016	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	April 2016	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT	October 3–7	National Bank of the Kyrgyz Republic
STA	SDDS Subscription	January 28–February 5, 2004	National Statistical Committee
	Balance of Payments Statistics	March 15–29, 2004	National Bank of the Kyrgyz Republic
	Monetary and Financial Statistics	April 27–May 11, 2004	National Bank of the Kyrgyz Republic
	National Accounts Statistics	November 17–28, 2008	National Statistics Committee
	Government Finance Statistics	November 11–14, 2008	Ministry of Finance

Dept.	Subject/Identified Need	Timing	Counterpart
	National Accounts Statistics	March 1–12, 2010	National Statistics Committee
	Government Finance Statistics	February 13–24, 2012	Ministry of Finance
	Private Sector External Debt Statistics	February 4–15, 2–12	National Statistics Committee and National Bank of the Kyrgyz Republic
	Price Statistics	February 18–March 1, 2013	National Statistics Committee
	Price Statistics	March 31–April 11, 2014	National Statistics Committee
	External Sector Statistics	February 16–27, 2015	National Bank of the Kyrgyz Republic
	External Sector Statistics	October 26–November 6, 2015	National Bank of the Kyrgyz Republic
	Monetary and Financial Statistics	April 15–28, 2015	National Bank of the Kyrgyz Republic
	External Sector Statistics	October 26–November 6, 2015	National Bank of the Kyrgyz Republic
	External Sector Statistics	April 4–15, 2016	National Bank of the Kyrgyz Republic
	Quarterly National Accounts	April 11–16, 2016	National Statistics Committee
	Government Finance Statistics	April 11–22, 2016	Ministry of Finance

Dept.	Subject/Identified Need	Timing	Counterpart
	Monetary and Financial Statistics	April 13–26, 2016	National Bank of the Kyrgyz Republic

List of Resident Advisors

MFD	Banking Supervision/Restructuring Advisor	Mr. Svartsman	January 2004–January 2005
MFD	Public Debt Policy and Management	Mr. Azarbayejani	December 2002–December 2004
MCM	Debt Management and Development of Government Securities Management	Mr. Riecke	August 2006–June 2011
MCD	Macroeconomic Analysis and Forecasting	Mr. Petkov	January 2010–January 2011
MCM	Banking Supervision/Restructuring Advisor	Mr. Svartsman	October 2010–April 2013
LEG	Long-Term Banking Advisor	Mr. Zaveckas	August 2012–April 2014
MCM	Banking Supervision/Restructuring Advisor	Mr. Svartsman	July 2013–January 2014
MCM	Banking Supervision/Restructuring Advisor	Ms. Sonbul Iskender	January 2016–present

STATISTICAL ISSUES

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

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.

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

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.

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. However, a follow-up April 2016 STA mission found deficiencies in the quarterly discrete data.

Price and labor market statistics

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.

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.

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.

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

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. Revenue and expenditure data generally accord with the GFSM 2001, but some deficiencies remain. The April 2016 GFS TA mission provided authorities with birding table for transition to GFSM 2014. Monthly GFS data are reported to STA for publication in the IFS; the latest data reported for publication in the GFS Yearbook were for 2012 and covered general government and its subsectors; and the data were compiled using the GFSM 2001 analytical framework.

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)

The MFS Technical Assistance (TA) mission visited the Kyrgyz Republic in April 2015 and assisted the National Bank of Kyrgyz Republic (NBKR) in migrating to the IMF recommended Standardized Report Forms (SRFs). The pilot data SRF 1SR for the NBKR and SRF 2SR for other depository corporations (which currently include operational commercial banks only) were developed and submitted to STA for review. STA identified classification and sectorization issues in the reported SRF data, which were communicated to the authorities. The data will be published in International Financial Statistics as soon as these issues are resolved. The April 2016 MFS TA mission focused on extending a coverage of SRF 2SR by including other deposit taking institutions as well as developing SRF 4SR for other financial corporations.

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

External sector statistics

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

Kyrgyz Republic: Table of Common Indicators Required for Surveillance

(As of December 5, 2016)

	Date of latest observation	Date received	Frequency of data[7]	Frequency of reporting[7]	Frequency of publication[7]	Memo Items: Data Quality Methodological Soundness[8]	Memo Items: Data Quality Accuracy and Reliability[9]
Exchange Rates	12/01/16	12/01/16	D	D	W		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	11/30/16	12/01/16	M	M	M		
Reserve/Base Money	12/01/16	12/01/16	D	D	M	LO, O, LO, LO	LO, O, O, LO, LO
Broad Money	10/31/16	11/18/16	M	M	M		
Central Bank Balance Sheet	12/01/16	12/01/16	D	D	M		
Consolidated Balance Sheet of the Banking System	10/31/16	11/18/16	M	M	M		
Interest Rates[2]	09/30/16	10/28/16	M	M	M		
Consumer Price Index	10/31/16	11/10/16	M	M	M	O, LO, O, O	LO, LO, O, O, O
Revenue, Expenditure, Balance, and Composition of Financing[3]—General Government[4]	10/31/16	12/04/16	M	M	A	O, LNO, LO, O	LO, O, O, LO, LO
Revenue, Expenditure, Balance, and Composition of Financing[3]—Central Government	10/31/16	12/04/16	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	9/30/16	11/04/16	Q	Q	Q		
External Current Account Balance	6/30/16	12/02/16	Q	Q	Q	LO, LO, LO, LO	O, LO, LO, LO, LO
Exports and Imports of Goods and Services	6/30/16	12/02/16	Q	Q	Q		
GDP/GNP	10/31/16	11/11/15	M	M	M	O, O, LO, O	LO, LO, LO, O, O
Gross External Debt	9/30/16	11/04/16	Q	Q	A		
International Investment Position[6]	06/30/16	11/02/16	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.

KYRGYZ REPUBLIC

December 5, 2016

THIRD REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS UPDATE

Approved By Juha Kähkönen and Zeine Zeidane (IMF) and John Panzer (IDA)

Prepared by staffs of the International Monetary Fund and the International Development Association

Due to the appreciation of the som and re-prioritization of public investment projects, the outlook for debt sustainability in the Kyrgyz Republic has improved significantly. External public debt is expected to decline to 60.7 percent of GDP in 2016 from 64.6 percent in the previous year, and the DSA assesses the Kyrgyz Republic to remain at moderate risk of debt distress. However, the debt outlook remains vulnerable, in particular to a sizeable exchange rate depreciation or scaling-up of public investment, which could tilt the assessment to high risk of debt distress. In order to avoid this adverse development, the authorities need to remain cautious when contracting and guaranteeing new debt and continue fiscal consolidation.[1]

[1] The updated CPIA score of Kyrgyz is 3.58, which is an average of the 2013-15 period, maintaining the classification of the Kyrgyz Republic as a medium policy performer.

UNDERLYING ASSUMPTIONS

1. **The current DSA takes into account the revised macroeconomic assumptions compared to the second review.** Based on economic developments in the first nine months of the year, 2016 economic growth is now expected to be weaker than at the time of the second review. Due to weak imports driven by sluggish economic activity and the scaling back of public investment projects, the current account deficit will decline further. Following the steady appreciation of the Kyrgyz som in the beginning of the year, the exchange rate has stabilized in recent months and most likely will remain stronger than expected in the medium-term. The postponement of some of the externally financed public investment projects resulted in an improved fiscal balance (including on-lending) in 2016, but some deterioration in the medium-term.

Selected Indicators

	2016	2017	2018	2019	2020
Real GDP growth					
Current DSA	2.6	2.3	2.9	5.9	5.3
Previous DSA (Second Review)	3.0	3.0	5.2	4.6	5.7
Overall fiscal balance (percent of GDP)*					
Current DSA	-7.9	-6.2	-4.0	-3.0	-1.5
Previous DSA (Second Review)	-8.8	-5.2	-2.8	-2.0	-0.5
Current account balance (percent of GDP)					
Current DSA	-10.0	-13.6	-13.8	-11.9	-11.7
Previous DSA (Second Review)	-15.2	-15.3	-12.6	-12.2	-10.1
PIP Disbursements					
Current DSA	366	406	356	350	323
Previous DSA (Second Review)	497	385	310	312	298

*Including onlending

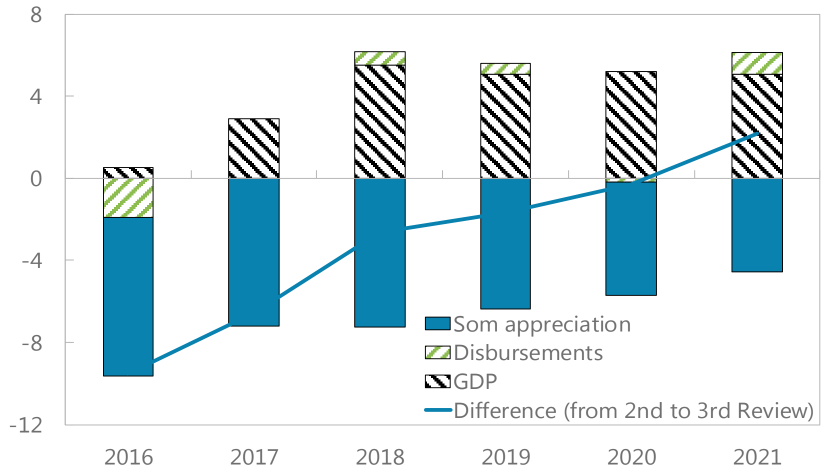
Sources: Authorities data and IMF staff calculations.

EXTERNAL DSA

2. **The debt outlook has improved, but remains vulnerable to external and domestic shocks.** Driven by the som appreciation and the postponement of some public investment projects by the authorities, external public and publicly guaranteed debt[2] is projected to decrease to 60.7 percent of GDP in 2016, compared to 64.6 percent in 2015. The 2016 external debt ratio had been revised down by 9.5 percentage points from the previous DSA due to the stronger than anticipated exchange rate and the authorities' decision to re-prioritize some externally financed public investment projects. The external debt-to-GDP ratio is also revised down over the medium term, mainly on the account of the stronger exchange rate projection, which is only partly offset by the weaker GDP forecast. External PPG-debt is now expected to level off at around 64 percent in 2018 and gradually decline afterwards.

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

Contribution to Debt Increase from the Second to the Third Review
(In percent)



Sources: National authorities; and IMF staff calculations.

3. The Kyrgyz Republic remains at moderate risk of debt distress, but it is no longer considered a borderline case. Public and publicly guaranteed external debt is estimated to remain well-below 36 percent of GDP and remittances in present value (PV) terms under baseline conditions over the projection period. Other indicators of debt sustainability also remain below their indicative thresholds and suggest, in particular, limited liquidity risks.

4. The external PPG debt outlook remains vulnerable to large external shocks, in particular to a falloff in exports, and sizeable depreciation of the exchange rate. The PV of the debt to GDP plus remittances ratio rises above the relevant indicative thresholds over the medium term under five of the six stress tests (one standard deviation shock to exports, the most severe of these scenarios, and net debt creating flows, U.S. dollar GDP deflator below historical average, a combined shock, and a 30 percent exchange rate shock (see Table 2). The breach of threshold under the export shock is large and protracted (figure AII.1, panel b), and sufficient to assess the country's external risk of debt distress as moderate**.**

5. While externally financed public investments are necessary to close the country's sizeable infrastructure gap, a massive scaling-up of public investments could undermine debt sustainability. As indicated by the adverse fiscal scenario in Annex I, under the assumption of: (i) an 0.7 multiplier of public investments (reflecting Kyrgyz's low public investment efficiency) and (ii) a 1 percent increase in the cost of new public borrowing (due to the increased reliance on Chinese loans), a 4 percentage point permanent increase in the public investment to GDP ratio would result in a non-stabilizing external debt path[3]. This

[3] The adverse scenario also assumes a temporary 30 percent drop in the USD nominal exchange rate, which has a direct impact on the external debt to GDP ratio. The assumptions are extreme, but not unrealistic. Given that the baseline scenario of this exercise is the 2014 October WEO forecast, a permanent 4 percentage points public investment to GDP shock corresponds to PIPs running around USD 500 million in the coming years, and gradually

(continued)

finding underlines the risks associated with a debt-financed investment-based growth model in the Kyrgyz Republic and the need for ensuring prioritiziation and sufficient profitability of public investment projects.

PUBLIC DSA

6. The public debt outlook has also improved significantly compared to the previous DSA, mainly driven by the factors affecting external debt. Public debt (external plus domestic) is expected to reach 62.1 percent of GDP in 2016, a 3 percentage points drop compared to 2015. Total public debt is expected to be manageable in the medium and long term, but remains highly sensitive to shocks that reduce real GDP growth or failure to reduce the primary deficit over the medium term. Liquidity risks associated with the servicing of public debt are expected to increase in the years ahead and reach 30 percent of revenues by 3036. This is due to the rising share of domestic debt in total public debt, which is serviced at higher domestic interest rates. Rising liquidity risks underline the importance of continued fiscal consolidation.

Comparison of Debt Ratio

	2016	2017	2018	2019	2020	Long Term (2025)
PPGE debt to GDP ratio						
Current DSA	60.7	63.0	64.4	63.1	61.2	49.0
Previous DSA (Second Review)	70.2	69.6	67.0	64.8	61.4	47.5
Public debt to GDP ratio						
Current DSA	62.1	64.2	65.5	64.2	62.2	56.9
Previous DSA (Second Review)	72.0	71.2	68.5	66.1	62.6	57.7

Sources: Authorities data and IMF staff calculations.

CONCLUSION

7. The authorities need to remain cautious when contracting and guaranteeing new debt, and should resume fiscal consolidation. In 2017, the primary fiscal deficit is expected to be 2.5 percentage points higher than the debt-stabilizing level, resulting in an increase in the public debt ratio. While necessary to fill the large infrastructure gap, externally financed public investments, could undermine debt sustainability. In this context, further efforts are needed to strengthen public debt and public investment management, in order to ensure that potential gains from externally financed public investment projects are fully realized.

increase afterwards. Nonetheless, the limited absorption capacity of the Kyrgyz economy could make such significant scale-up of public investment difficult.

Table 1. Kyrgyz Republic: External Debt Sustainability Framework, Baseline Scenario, 2016–36[1/]

(In percent of GDP; unless otherwise indicated)

	Actual											Historical[6/]	Standard[6/]	Projections									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average	Deviation	2016	2017	2018	2019	2020	2021	2016-2021 Average	2026	2036	2022-2036 Average
External debt (nominal) 1/	78.5	66.3	90.9	73.6	89.9	93.2	76.9	80.2	72.9	80.5	94.5			92.6	91.8	90.9	88.9	87.3	85.4		70.4	50.0	
of which: public and publicly guaranteed (PPG)	78.5	66.3	51.7	44.5	54.2	55.9	45.6	46.3	43.7	50.6	63.6			60.7	63.0	64.4	63.1	61.2	59.4		46.0	31.9	
Change in external debt	...	-12.3	24.7	-17.3	16.3	3.3	-16.3	3.3	-7.3	7.6	14.1			-1.9	-0.9	-0.8	-2.1	-1.5	-2.0		-3.9	-1.1	
Identified net debt-creating flows	...	-14.4	-17.3	-17.1	2.2	-9.2	-29.2	-12.9	-15.4	11.6	4.5			-0.4	4.4	3.9	-0.4	0.2	0.9		-2.6	-1.0	
Non-interest current account deficit	-5.3	1.8	4.4	13.8	-1.8	1.4	2.3	-4.5	0.2	14.9	10.0	4.3	6.5	7.8	12.4	12.5	10.1	9.5	9.1		4.9	4.8	5.1
Deficit in balance of goods and services	14.0	27.1	31.4	38.5	21.0	24.8	21.9	24.9	26.5	42.0	31.1			32.0	36.0	36.4	32.9	30.9	30.4		24.3	20.8	
Exports	42.8	52.3	53.1	54.0	49.8	50.6	50.5	58.0	57.7	45.3	39.3			40.5	41.6	41.9	44.9	46.6	46.4		49.4	46.9	
Imports	56.8	79.4	84.5	92.5	70.8	75.4	72.4	82.9	84.2	87.4	70.4			72.5	77.6	78.3	77.7	77.6	76.9		73.8	67.7	
Net current transfers (negative = inflow)	-21.3	-26.3	-27.7	-29.7	-25.8	-28.9	-29.6	-31.2	-31.1	-30.2	-23.9	-28.4	2.4	-26.6	-26.0	-26.2	-25.2	-23.8	-23.7		-21.8	-17.9	-20.6
of which: official	-1.9	-1.0	-1.7	-1.9	-4.2	-1.6	-1.3	-1.0	-1.7	-2.8	-1.5			-1.4	-0.7	-1.0	-0.6	0.0	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	2.1	1.0	0.7	5.0	2.9	5.6	10.0	1.9	4.8	3.1	2.8			2.3	2.4	2.4	2.4	2.4	2.4		2.3	1.9	
Net FDI (negative = inflow)	-1.7	-6.4	-5.5	-8.0	-4.0	-9.1	-11.2	-4.4	-8.5	-3.1	-14.9	-7.5	3.6	-8.1	-7.2	-7.3	-7.3	-7.2	-7.1		-5.8	-5.6	-5.9
Endogenous debt dynamics 2/	...	-9.7	-16.3	-22.9	8.1	-1.5	-20.3	-4.0	-7.0	-0.2	9.5			-0.1	-0.8	-1.2	-3.2	-2.2	-1.2		-1.6	-0.3	
Contribution from nominal interest rate	...	0.7	0.6	0.5	1.0	0.8	0.7	0.7	1.0	1.1	1.0			2.4	1.2	1.3	1.9	2.2	2.4		2.4	2.1	
Contribution from real GDP growth	...	-2.1	-4.2	-5.1	-2.3	0.4	-4.3	0.6	-7.9	-2.9	-3.1			-2.6	-2.0	-2.5	-5.1	-4.4	-3.6		-4.0	-2.4	
Contribution from price and exchange rate changes	...	-8.3	-12.7	-18.4	9.4	-2.7	-16.6	-5.4	-0.1	1.6	11.5			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	...	2.1	42.0	-0.2	14.1	12.5	12.9	16.2	8.0	-4.0	9.6			-1.5	-5.3	-4.7	-1.6	-1.7	-2.9		-1.3	0.0	
of which: exceptional financing	...	-0.3	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0			-0.5	-0.4	-0.4	-0.4	-0.4	-0.4		0.0	0.0	
PV of external debt 4/	...	...	...	...	...	...	...	...	...	...	71.7			71.3	69.8	68.5	66.9	66.5	65.7		55.8	39.4	
In percent of exports	...	...	...	...	...	...	...	...	...	...	182.3			176.1	168.0	163.4	149.1	142.7	141.4		113.0	84.2	
PV of PPG external debt	...	...	...	...	...	...	...	...	...	...	40.7			39.4	41.0	41.9	41.2	40.4	39.7		31.5	21.4	
In percent of exports	...	...	...	...	...	...	...	...	...	...	103.6			97.3	98.7	100.0	91.8	86.7	85.4		63.7	45.7	
In percent of government revenues	...	...	...	...	...	...	...	...	...	...	121.6			117.0	126.7	128.0	123.4	119.0	115.9		95.5	72.5	
Debt service-to-exports ratio (in percent)	11.9	5.7	11.3	14.4	29.9	18.7	9.4	11.1	17.7	15.1	26.5			24.0	19.5	18.3	17.5	19.0	20.7		22.6	17.1	
PPG debt service-to-exports ratio (in percent)	10.7	4.7	3.4	2.7	3.6	3.7	3.1	3.8	6.8	3.5	4.9			5.4	5.5	6.1	5.9	5.7	6.0		6.3	6.0	
PPG debt service-to-revenue ratio (in percent)	18.9	9.3	6.3	5.2	6.5	6.7	5.3	6.9	12.3	4.7	5.7			6.5	7.1	7.8	8.0	7.9	8.1		9.4	9.5	
Total gross financing need (Billions of U.S. dollars)	...	...	...	...	0.4	0.1	-0.2	-0.1	0.2	1.4	0.4			0.6	0.9	0.9	0.8	0.9	1.0		1.1	1.5	
Non-interest current account deficit that stabilizes debt ratio	...	14.0	-20.2	31.1	-18.1	-1.9	18.6	-7.7	7.5	7.4	-4.1			9.7	13.3	13.3	12.2	11.1	11.1		8.8	5.9	
Key macroeconomic assumptions																							
Real GDP growth (in percent)	-0.2	3.1	8.5	7.6	2.9	-0.5	6.0	-0.9	10.9	4.0	3.5	4.5	3.8	2.6	2.3	2.9	5.9	5.3	4.3	3.9	5.8	5.1	5.0
GDP deflator in US dollar terms (change in percent)	11.3	11.8	23.7	25.3	-11.3	3.1	21.7	7.5	0.1	-2.1	-12.5	6.7	13.8	-5.5	1.0	1.8	0.7	0.8	0.8	-0.1	1.0	1.0	1.0
Effective interest rate (percent) 5/	1.8	1.0	1.2	0.8	1.2	0.9	0.9	1.0	1.3	1.5	1.2	1.1	0.2	2.5	1.4	1.5	2.2	2.7	2.9	2.2	3.5	4.4	3.8
Growth of exports of G&S (US dollar terms, in percent)	2.9	40.9	36.2	37.0	-15.8	4.3	28.5	22.6	10.3	-20.0	-21.5	12.3	24.5	-0.1	6.0	5.6	14.3	10.3	4.7	6.8	7.7	5.4	6.0
Growth of imports of G&S (US dollar terms, in percent)	23.9	61.3	42.8	47.5	-30.1	9.2	23.8	22.2	12.6	5.7	-27.1	16.8	29.8	-0.1	10.4	5.6	6.0	5.9	4.2	5.4	5.2	5.2	5.1
Grant element of new public sector borrowing (in percent)		...	...	...	...	...	...	...	...	...	...	...	...	37.5	40.5	45.3	43.6	41.4	39.4	41.3	36.3	23.8	31.6
Government revenues (excluding grants, in percent of GDP)	24.3	26.3	28.6	27.9	27.7	28.4	29.6	32.2	32.0	32.9	33.5			33.6	32.4	32.7	33.4	34.0	34.2		33.0	29.5	32.0
Aid flows (in Billions of US dollars) 7/	0.1	0.1	0.1	0.1	0.3	0.3	0.4	0.3	0.3	0.3	0.2			0.4	0.4	0.4	0.3	0.2	0.1		0.2	0.3	
of which: Grants	0.0	0.0	0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.1			0.3	0.3	0.2	0.1	0.1	0.1		0.1	0.1	
of which: Concessional loans	0.1	0.1	0.1	0.0	0.1	0.2	0.2	0.1	0.1	0.1	0.1			0.1	0.2	0.3	0.2	0.1	0.1		0.1	0.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...	...	...	...	...	...	...	...	...			6.8	6.4	5.0	3.8	2.3	2.0		1.6	1.2	1.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...	...	...	...	...	...	...	...	...			62.9	63.2	63.6	59.1	56.5	55.8		51.5	32.3	44.5
Memorandum items:																							
Nominal GDP (Billions of US dollars)	2.5	2.8	3.8	5.1	4.7	4.8	6.2	6.6	7.3	7.5	6.8			6.6	6.8	7.1	7.6	8.0	8.4		11.2	20.1	
Nominal dollar GDP growth	...	15.3	34.2	34.8	-8.8	2.6	29.0	6.6	11.0	1.8	-9.5			-3.0	3.3	4.7	6.7	6.1	5.2	3.8	6.8	6.1	6.0
PV of PPG external debt (in Billions of US dollars)											2.31			2.5	2.8	2.9	3.1	3.2	3.3		3.5	4.2	
(PVt-PVt-1)/GDPt-1 (in percent)														3.5	3.4	2.4	2.0	1.7	1.3	2.4	0.2	0.9	0.4
Gross workers' remittances (Billions of US dollars)	0.5	0.7	1.0	1.4	1.0	1.3	1.8	2.0	2.2	2.0	1.5			1.7	1.7	1.8	1.9	1.9	2.0		2.4	3.6	
PV of PPG external debt (in percent of GDP + remittances)									...	...	33.2			31.4	32.7	33.5	33.0	32.7	32.1		25.9	18.2	
PV of PPG external debt (in percent of exports + remittances)									...	...	65.9			60.0	61.3	62.4	59.3	57.4	56.6		44.2	33.1	
Debt service of PPG external debt (in percent of exports + remittances)									...	...	3.1			3.3	3.4	3.8	3.8	3.8	4.0		4.4	4.3	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

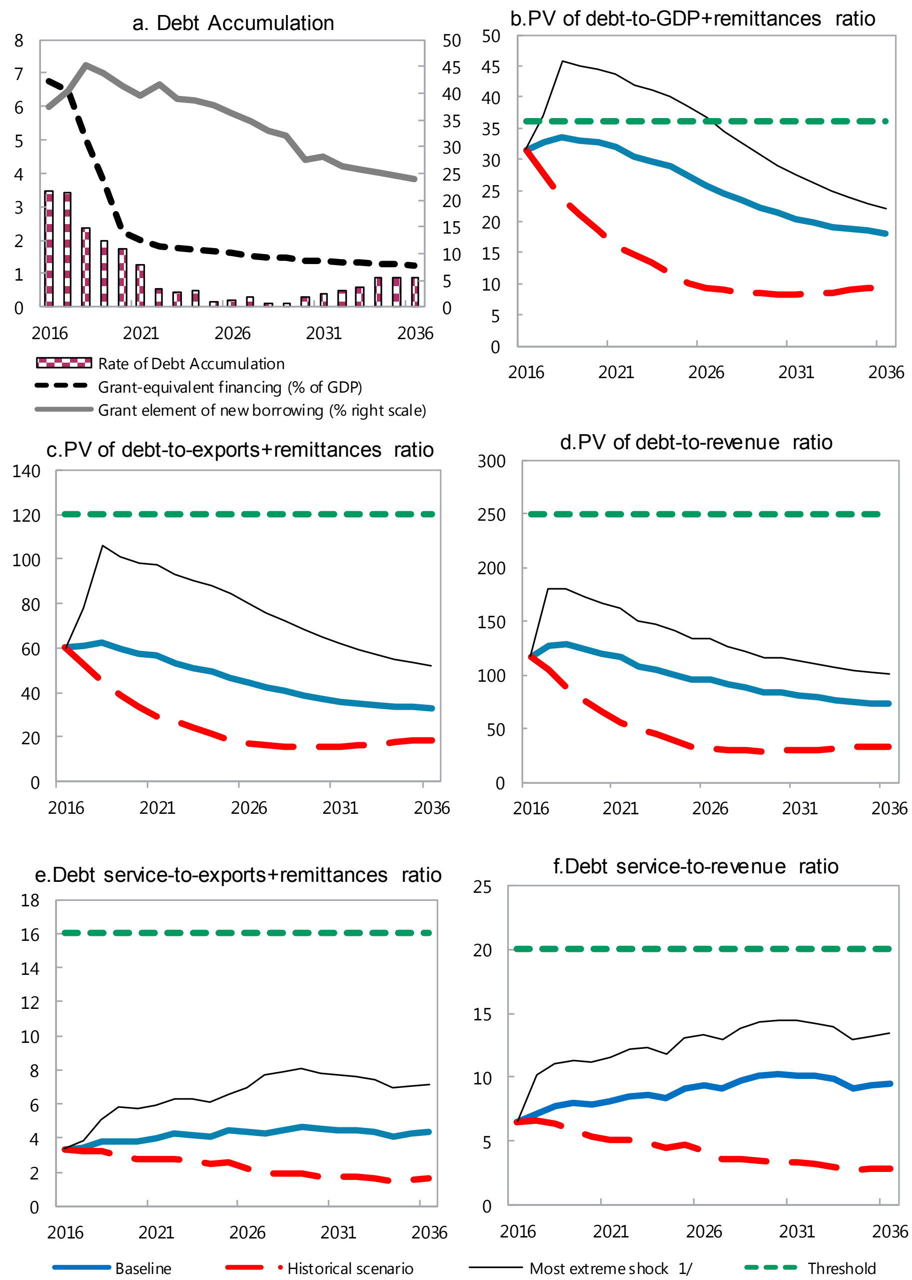
5/ Current-year interest payments divided by previous period debt stock.

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

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

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

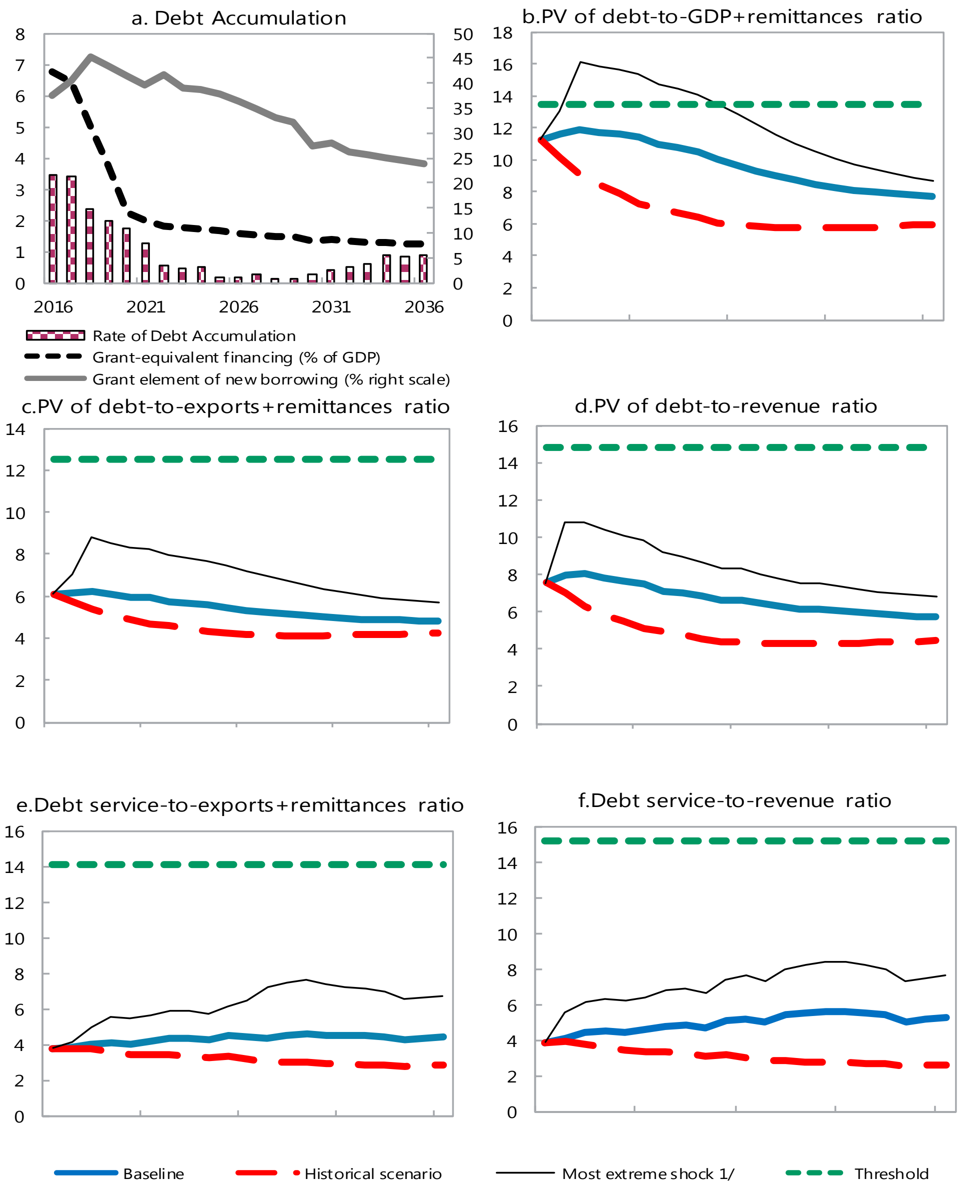
Figure 1. Kyrgyz Republic: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2016–36 /1



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Kyrgyz Republic: Probability of Debt Distress of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2016–36 /1



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Table 2. Kyrgyz Republic: Indicators of Public and Publicly-Guaranteed External Debt Under Alternative Scenarios, 2016–36[1/]

	Projections							
	2016	2017	2018	2019	2020	2021	**2026**	2036
PV of debt-to-GDP+remittances ratio								
Baseline	31.4	32.72	33.47	33.05	32.66	32.07	**25.9**	18.2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	31	28	24	21	19	16	**9**	9
A2. New public sector loans on less favorable terms in 2016-2036 2	31	33.8	35.3	35.8	35.8	35.7	**32**	31
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	31.4	33.0	33.9	33.5	33.1	32.5	**26.1**	18.2
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	31.4	37.1	45.6	45.0	44.4	43.7	**36.6**	22.0
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	31.4	34.8	37.8	37.3	36.9	36.2	**29.2**	20.5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	31.4	34.7	37.4	36.9	36.4	35.8	**29.2**	19.2
B5. Combination of B1-B4 using one-half standard deviation shocks	31.4	34.3	39.2	38.8	38.3	37.7	**31.0**	20.0
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	31.4	42.7	43.2	42.7	42.3	41.5	**33.5**	23.7
PV of debt-to-exports+remittances ratio								
Baseline	60	61	62	59	57	57	**44**	33
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	60	52	45	39	34	29	**17**	19
A2. New public sector loans on less favorable terms in 2016-2036 2	60	63	66	64	63	63	**55**	57
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	60	61	62	58	56	56	**43**	32
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	60	78	106	101	98	97	**80**	52
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	60	61	62	58	56	56	**43**	32
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	60	65	70	66	64	63	**50**	35
B5. Combination of B1-B4 using one-half standard deviation shocks	60	66	76	73	70	69	**56**	38
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	60	61	62	58	56	56	**43**	32
PV of debt-to-revenue ratio								
Baseline	117	127	128	123	119	116	**95**	72
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	117	105	88	76	65	55	**31**	33
A2. New public sector loans on less favorable terms in 2016-2036 2	117	131	135	134	131	129	**118**	125
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	117	128	131	126	121	118	**97**	73
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	117	144	175	168	162	158	**135**	88
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	117	137	150	145	139	136	**111**	84
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	117	134	143	138	133	129	**108**	76
B5. Combination of B1-B4 using one-half standard deviation shocks	117	134	152	147	141	138	**116**	81
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	117	180	179	173	167	162	**133**	100

Table 2. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public and Publicly-Guaranteed External Debt, 2016–36 (continued)[1/]

				Debt service-to-exports+remittances ratio				
Baseline	3	3	4	4	4	4	**4**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	3	3	3	3	3	3	**2**	2
A2. New public sector loans on less favorable terms in 2016-2036 2	3	3	4	4	4	4	**5**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	3	3	4	4	4	4	**4**	4
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	3	4	5	6	6	6	**7**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	3	3	4	4	4	4	**4**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	3	3	4	4	4	4	**5**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	3	4	4	4	4	5	**5**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	3	3	4	4	4	4	**4**	4
				Debt service-to-revenue ratio				
Baseline	7	7	8	8	8	8	**9**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	7	7	6	6	5	5	**4**	3
A2. New public sector loans on less favorable terms in 2016-2036 2	7	7	8	8	8	9	**10**	10
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	7	7	8	8	8	8	**10**	10
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	7	7	8	10	9	10	**12**	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	7	8	9	9	9	10	**11**	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	7	7	8	9	8	9	**10**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	7	7	8	9	9	9	**11**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	7	10	11	11	11	12	**13**	13
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	22	22	22	22	22	22	**22**	22

Sources: Country authorities; and staff estimates and projections.

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

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

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

4/ Includes official and private transfers and FDI.

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

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

Table 3. Kyrgyz Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2013–36

(In percent of GDP; unless otherwise indicated)

	Actual					Estimate	Projections								
	2013	2014	2015	Average 5/	Standard Deviation 5/	2016	2017	2018	2019	2020	2021	2016-21 Average	2026	2036	2022-36 Average
Public sector debt 1/	46.1	52.3	65.0			62.1	64.2	65.5	64.2	62.2	60.3		55.2	46.5	
of which: foreign-currency denominated	43.7	50.6	63.6			60.7	63.0	64.4	63.1	61.2	59.4		46.0	31.9	
Change in public sector debt	-2.9	6.2	12.7			-2.9	2.1	1.3	-1.3	-2.0	-2.0		-1.6	-0.6	
Identified debt-creating flows	-1.0	6.2	13.3			-0.3	3.1	1.4	-1.5	-2.5	-1.9		-1.3	-0.6	
Primary deficit	2.7	2.8	2.3	3.0	2.0	6.8	4.9	2.9	2.1	0.7	0.7	3.0	1.5	1.3	1.5
Revenue and grants	34.4	35.3	35.6			38.0	36.3	35.4	35.1	35.0	35.2		33.7	30.0	
of which: grants	2.4	2.4	2.1			4.4	3.9	2.6	1.8	1.0	1.0		0.7	0.4	
Primary (noninterest) expenditure	37.2	38.2	37.8			44.8	41.2	38.2	37.2	35.7	35.9		35.2	31.3	
Automatic debt dynamics	-3.8	3.3	11.0			-6.6	-1.4	-1.1	-3.3	-2.8	-2.2		-2.8	-1.9	
Contribution from interest rate/growth differential	-5.3	-2.2	-1.7			-1.6	-1.3	-1.8	-4.0	-3.5	-2.8		-3.3	-1.6	
of which: contribution from average real interest rate	-0.5	-0.4	0.1			0.0	0.1	0.0	-0.3	-0.3	-0.2		-0.1	0.7	
of which: contribution from real GDP growth	-4.8	-1.8	-1.8			-1.7	-1.4	-1.8	-3.7	-3.2	-2.6		-3.1	-2.3	
Contribution from real exchange rate depreciation	1.6	5.5	12.7			-5.0	-0.1	0.7	0.7	0.7	0.6		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			-0.5	-0.4	-0.4	-0.4	-0.4	-0.4		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			-0.5	-0.4	-0.4	-0.4	-0.4	-0.4		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-1.8	0.0	-0.6			-2.7	-0.9	0.0	0.2	0.6	-0.1		-0.3	-0.1	
Other Sustainability Indicators															
PV of public sector debt	...	1.7	42.1			40.7	42.3	43.1	42.2	41.4	40.6		40.7	35.9	
of which: foreign-currency denominated	...	0.0	40.7			39.4	41.0	41.9	41.2	40.4	39.7		31.5	21.4	
of which: external	...	...	40.7			39.4	41.0	41.9	41.2	40.4	39.7		31.5	21.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	7.7	6.0	5.2			10.1	8.3	6.3	5.4	3.9	3.9		9.4	5.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	4.9	118.4			107.1	116.5	121.7	120.3	118.3	115.3		120.7	119.9	
PV of public sector debt-to-revenue ratio (in percent)	...	5.3	125.8			121.0	130.5	131.6	126.6	121.9	118.6		123.4	121.6	
of which: external 3/	...	...	121.6			117.0	126.7	128.0	123.4	119.0	115.9		95.5	72.5	
Debt service-to-revenue and grants ratio (in percent) 4/	11.6	5.3	6.0			6.9	7.6	8.1	7.8	7.9	8.0		15.0	17.8	
Debt service-to-revenue ratio (in percent) 4/	12.5	5.7	6.4			7.8	8.5	8.8	8.2	8.2	8.3		15.3	18.1	
Primary deficit that stabilizes the debt-to-GDP ratio	5.6	-3.4	-10.4			9.7	2.8	1.5	3.5	2.7	2.6		3.2	2.0	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	10.9	4.0	3.5	4.5	3.8	2.6	2.3	2.9	5.9	5.3	4.3	3.9	5.8	5.1	5.0
Average nominal interest rate on forex debt (in percent)	1.2	1.3	1.3	1.1	0.2	1.3	1.4	1.3	1.4	1.4	1.4	1.4	1.6	2.2	1.8
Average real interest rate on domestic debt (in percent)	17.1	5.6	13.9	3.0	9.0	28.5	29.5	23.6	2.9	2.1	2.1	14.8	0.0	0.0	0.0
Real exchange rate depreciation (in percent, + indicates depreciation	3.8	13.3	26.1	-0.9	14.2	-8.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.2	8.4	3.8	10.9	7.2	2.3	5.2	3.7	3.8	3.8	3.9	3.8	4.0	4.0	4.0
Growth of real primary spending (deflated by GDP deflator, in percer	5.0	6.8	2.6	1.5	2.5	21.7	-6.0	-4.5	3.2	0.9	4.8	3.3	-0.3	4.7	4.0
Grant element of new external borrowing (in percent)	...	...	0.0	0.0	...	37.5	40.5	45.3	43.6	41.4	39.4	41.3	36.3	23.8	...

Sources: Country authorities; and staff estimates and projections.

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

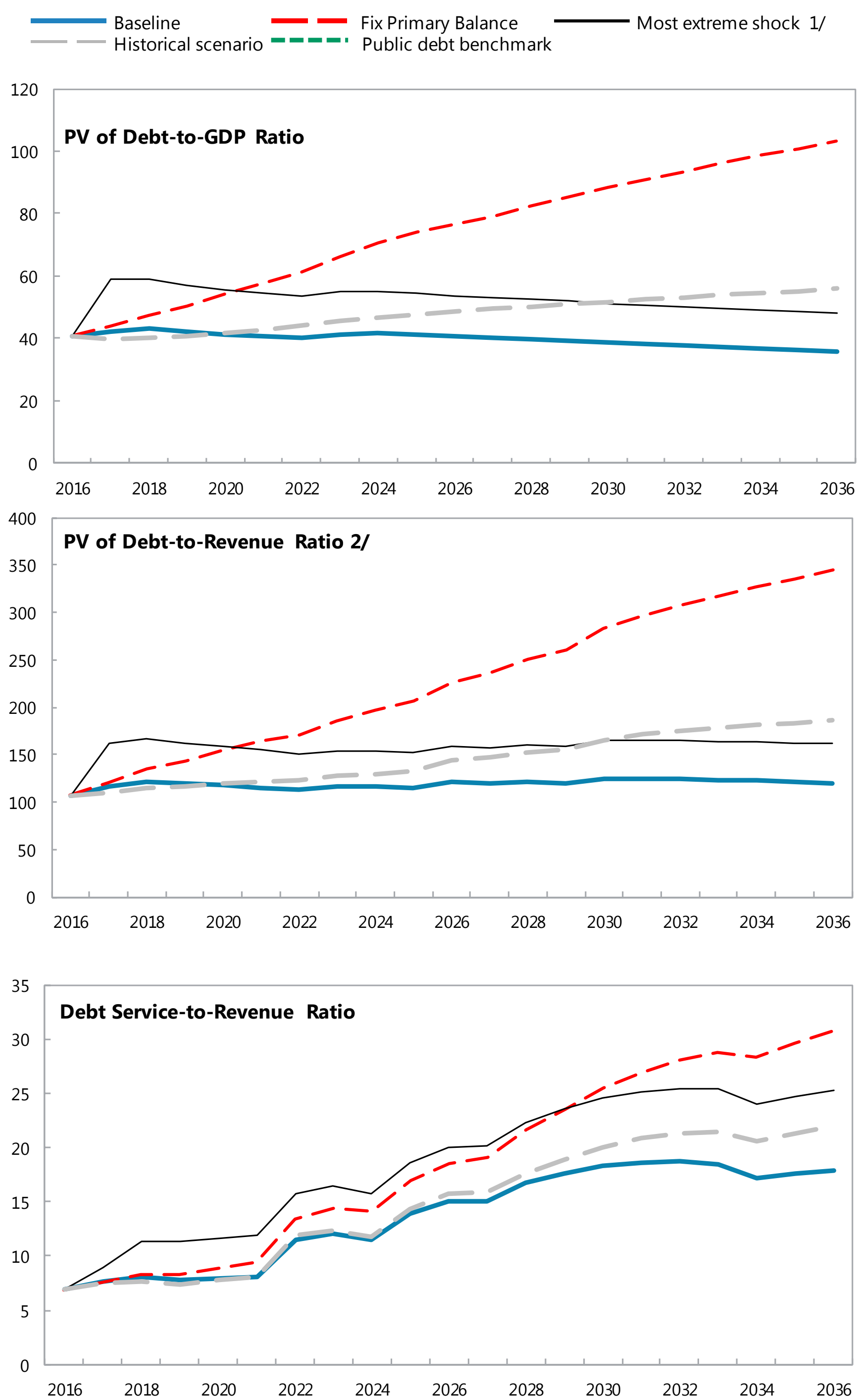
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

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

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

Figure 3. Kyrgyz Republic: Indicators of Public Debt Under Alternative Scenarios, 2016-2036 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.

2/ Revenues are defined inclusive of grants.

Table 4. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public Debt 2016-2036

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt-to-GDP Ratio								
Baseline	41	42	43	42	41	41	41	36
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	41	40	40	41	42	43	49	56
A2. Primary balance is unchanged from 2016	41	44	48	50	54	58	76	103
A3. Permanently lower GDP growth 1/	41	43	44	44	45	45	56	82
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	41	43	46	46	46	46	51	52
B2. Primary balance is at historical average minus one standard deviations in 2017-201	41	42	45	44	43	42	42	37
B3. Combination of B1-B2 using one half standard deviation shocks	41	41	43	42	41	41	41	36
B4. One-time 30 percent real depreciation in 2017	41	59	59	57	55	54	54	48
B5. 10 percent of GDP increase in other debt-creating flows in 2017	41	50	51	50	49	48	48	41
PV of Debt-to-Revenue Ratio 2/								
Baseline	107	117	122	120	118	115	121	120
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	107	110	114	116	120	122	144	186
A2. Primary balance is unchanged from 2016	107	121	135	143	154	164	227	345
A3. Permanently lower GDP growth 1/	107	118	125	127	128	129	165	273
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	107	119	130	131	132	131	151	174
B2. Primary balance is at historical average minus one standard deviations in 2017-201	107	117	126	125	123	120	125	123
B3. Combination of B1-B2 using one half standard deviation shocks	107	114	122	120	118	115	120	119
B4. One-time 30 percent real depreciation in 2017	107	162	166	162	158	154	159	161
B5. 10 percent of GDP increase in other debt-creating flows in 2017	107	138	144	142	140	136	141	137
Debt Service-to-Revenue Ratio 2/								
Baseline	7	8	8	8	8	8	15	18
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	7	7	8	7	8	8	16	22
A2. Primary balance is unchanged from 2016	7	8	8	8	9	9	18	31
A3. Permanently lower GDP growth 1/	7	8	8	8	8	9	17	27
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	7	8	8	8	8	9	16	21
B2. Primary balance is at historical average minus one standard deviations in 2017-201	7	8	8	8	8	8	15	18
B3. Combination of B1-B2 using one half standard deviation shocks	7	8	8	8	8	8	15	18
B4. One-time 30 percent real depreciation in 2017	7	9	11	11	12	12	20	25
B5. 10 percent of GDP increase in other debt-creating flows in 2017	7	8	9	9	9	9	16	19

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.