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Kyrgyz Republic: Recent Economic Developments

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KYRGYZ REPUBLIC

Recent Economic Developments

Prepared by a staff team consisting of Thanos Catsambas (head), Johannes Mueller, Jens Dalsgaard (all EU2), Joannes Mongardini (PDR) and Qingying Kong (FAD)

Approved by the European II Department

February 5, 1999

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Kyrgyz Republic: Basic Data

Social and demographic indicators

Area	199,900 sq. km.
Population density (1997)	23.3 per sq. km.
Population (1997)	4.668 million
Rate of population growth (1997)	1.3 percent
Life expectancy at birth (1997)	66.9 years
Male	62.3 years
Female	71.0 years
Infant mortality rate (1996)	25.9 per thousand
Hospital beds per 1,000 inhabitants (1997)	8.7
Literacy rate (1997)	95.1

	1994	1995	1996	1997	1998 Est.
			(Percentage change)		
Real GDP	-20	-5	7	10	2
Consumer prices 1/	96	32	35	15	18
Producer prices 1/	100	26	41	15	18
Broad money	125	78	23	25	17
			(In percent of GDP)		
Share in GDP					
Agriculture	38	41	46	41	40
Industry	21	12	11	16	17
Construction	3	6	6	5	2
Transport and communication	3	2	5	4	4
Other	35	39	32	34	37
Government revenue and grants	21	17	16	16	18
Government expenditures	29	33	25	25	28
Overall balance	-8	-17	-10	-9	-9
Exports	31	27	29	36	32
Imports	42	39	43	37	41
Current account balance	-11	-16	-23	-8	-17
			(In millions of soms)		
GDP	12,019	16,145	23,400	30,686	35,832

Sources: Kyrgyz authorities; National Statistical Committee; and Fund staff estimates.
1/ December-to-December.

I. Introduction

1. The Kyrgyz Republic became independent in 1991 after the breakup of the U.S.S.R. It introduced its own national currency, the som, and agreed to a Systemic Transformation Facility with the International Monetary Fund in 1993. In 1994 it embarked upon a comprehensive macroeconomic and structural reform program under the country's first three-year ESAF arrangement. In June 1998, after successfully completing the first ESAF program, it entered into a second three-year ESAF arrangement.

2. After independence the Kyrgyz Republic experienced a dramatic contraction of economic activity and very high levels of inflation. During the course of the first ESAF program significant progress was made in terms of macroeconomic stabilization and structural reform. Thus, solid real growth emerged in 1996, the budget deficit relative to GDP was almost cut in half between 1995 and 1997, and inflation reached single digit levels in 1998 until the Russia crisis hit the Kyrgyz economy (Figure 1). In the structural area privatization of small enterprises was completed quickly, the banking sector was restructured, budgetary procedures were improved, and a large number of key laws to create a market-based economy were passed. In 1998 the constitution of the Kyrgyz Republic was changed to allow full private ownership of land.

3. Despite these improvements, the country has become dependent on foreign aid, the deficit on the external current account is unsustainable, the foreign debt burden is increasing at a worrisome rate, the implementation of structural reforms is incomplete, and application of laws is still weak. Policies targeted at these problems are at the center of the authorities' economic program for the coming years.

II. Real Sector, Price Developments and Structural Reforms

4. After having contracted by about 50 percent between 1992 and 1995, real GDP recovered strongly in 1996, with a growth rate of more than 7 percent. The main source behind this increase was a strong growth of the agricultural sector, which continued the following year, and, combined with the startup of the Kumtor gold mine, led to a real GDP growth rate of almost 10 percent in 1997. During 1998, growth slowed down to about 2 percent reflecting the leveling-off of the Kumtor production, lower than the expected agricultural output and the impact of the financial turmoil in Russia.[1] [2]

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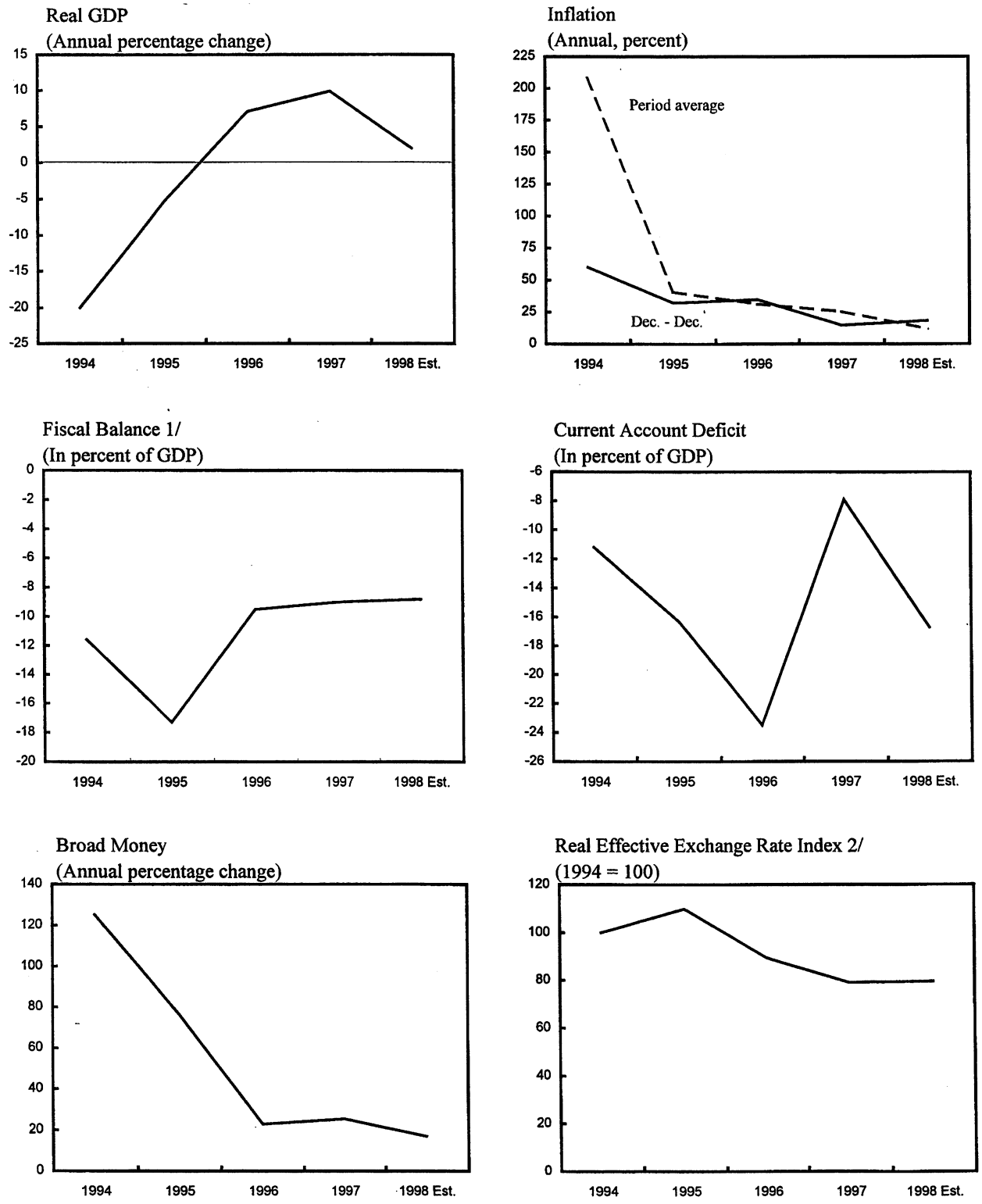
[1]The official GDP calculations include an estimate of the informal sector. This estimate has been broadly constant during 1995–97 at about 10 percent of GDP. The World Bank is supporting a project to refine the techniques and procedures that are used in estimating the size of the informal sector.

[2]The impact of the Russian crisis on the Kyrgyz economy is discussed in the accompanying staff report.

Figure 1. Kyrgyz Republic: Selected Economic Indicators, 1994-98



Sources: Kyrgyz authorities; and Fund staff estimates.

1/ The budget balance includes the externally-financed public investment program.

2/ An increase corresponds to an appreciation.

5. The official estimate of the **private sector share of GDP** has increased from 66 percent in 1995 to 76 percent in 1997. However, this estimate is based on a very broad definition of the private sector which defines an enterprise as private if it has been converted to a joint stock company, even though the government may still be the majority shareholder. Accordingly, the estimate is biased upwards. The European Bank for Reconstruction and Development (EBRD) estimated the private share in GDP by mid-1997 at 60 percent, up from 40 percent in mid-1995. While the two estimates may differ in level terms, the changes are broadly in line and also reflect the sources of the overall real growth of the economy during 1996 and 1997. The private share in GDP in the Kyrgyz Republic is among the highest in the CIS.

A. Aggregate Demand

6. In 1997 **government consumption** as a share of GDP declined by about 1 percentage point to around 17 percent of GDP, thereby continuing the downward trend which began in 1996 (Table 2). This development primarily reflects expenditure restraint, but also a reorientation of the composition of government expenditures away from current expenditures toward investment projects. After jumping about 7 percentage points from 1995 to 1996 **private consumption** as a share of GDP decreased from 82 percent in 1996 to 69 percent in 1997, partially reflecting lower imports of consumption goods following the depreciation of the som in late 1996. The jump in private consumption in 1996 was equivalent to an increase of about 15 percent in real terms, while the drop in 1997 was equivalent to about 9 percent in real terms. The decline in private consumption in 1997 could thus be seen as a correction of unsustainably high private consumption in 1996, given the almost flat development in real wages (Table 11).[3] In 1995 and 1996 **investment activity** was dominated by the construction of the Kumtor gold project. In mid-1997 the construction phase of Kumtor ended, resulting in a sharp drop in gross fixed capital formation. However, changes in stocks were large and positive, keeping the overall investment level above 20 percent of GDP. The accumulation of stocks during 1997 mainly reflects unsold crops following the favorable outcome of harvest, and a large stock of unsold gold from Kumtor.[4] This increase in stocks is mirrored in a more than doubling of **private savings**, while **government dissavings** was reduced by less than 1 percentage point to about 6 percent of GDP.

B. Aggregate Supply

7. **Agriculture**, contributing almost half of GDP, has become the main engine of growth in the Kyrgyz economy. Both in 1996 and 1997 agricultural production benefitted from favorable weather conditions, but also from productivity gains following the privatization and

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[3]The volatility of the components of the GDP may also reflect difficulties in the compilation of reliable national account statistics.

[4]Gold is exported to Switzerland and transported out of the Kyrgyz Republic on specially chartered flights.

reform program (Tables 3, 4, and 5). In total, agricultural production in real terms increased by 15.2 percent and 12.3 percent in 1996 and 1997, respectively, reflecting high volumes of grains, potatoes, vegetables, tobacco, and sugarbeet, which continued to grow during the first 10 months of 1998 (Tables 6 and 7).[5] The production of wool has continued to fall, and the annual output is now less than one-third the level before independence.[6] In general, the production of animal products has been broadly constant since 1994–95, and has thus not followed the general upward trend in agricultural output. This development reflects shrinking production of animal products by large state and collective farms and only a moderate increase in the production by household farms (Table 5). Agricultural production in the first 10 months of 1998 was characterized by less favorable weather conditions compared to the two previous years, and, as a consequence, by a late harvest. However, in spite of this, overall growth continued, mirroring a broad-based increase in yields (Table 7). Lack of working capital is still a serious constraint for the development of the sector (see Section II. E).

8. Developments in **manufacturing production** in 1996–98 were marked by the start of commercial production at the Kumtor gold mine. Thus, while manufacturing output grew only marginally in 1996, it rose by about 40 percent in 1997. Besides Kumtor, this sharp rise also reflects increased production from two oil refineries that had invested in new technology (Table 8). Excluding Kumtor and the oil refineries, growth of the sector would have been negative. The operation of the Kumtor mine only reached full production capacity by mid-1997, and the mine has accordingly also contributed to growth of the sector in 1998. Except for the production of coal, roofing sheets, cement, and light bulbs, the production of most other industrial goods declined during 1997 (Table 9). The strong production of these items has continued during the first half of 1998, while the production of coal has declined significantly, following the closure of loss-making mines. The growth in the production of construction materials partly reflects strong demand from Kazakhstan related to construction work in the new capital, Astana.

9. The production of **electricity** during the winter of 1997/98 fell short of demand, due to low water levels in hydropower dams following low rainfall and glacier melt in 1997.[7] Total electricity production thus fell by about 10 percent in 1997, and continued to fall in 1998, especially during the first half, with annual production about 8 percent below the 1997 level (Table 8). The continued fall in the production of electricity in 1998 reflected higher-than-

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[5]The average annual real growth rate for 1996-98 for these products was around 20 percent, with the exception of the production of sugarbeets, which grew by an average of almost 50 percent.

[6]The reduced number of sheep has restored the quality of a large proportion of pasture land, which used to suffer from over-grassing.

[7]In order to mach supply and demand, the supply of electricity was cut off to large parts of the country (especially rural areas) during peak hours during the winter. Interruptions to power supply in Bishkek were minor.

normal rainfall in the spring, which in turn reduced neighboring countries' demand for water and electricity (see Section V.A). However, the higher-than-normal rainfall combined with the low production for export allowed the water levels in the dams to be partially reestablished.

10. In 1995–96, activity in the **construction sector** was dominated by the investment phase of the Kumtor mine; this phase ended in 1997, and overall activity of the sector accordingly contracted by 17 percent. The slowdown of the sector continued in 1998 as the increase in the Public Investment Program (PIP) was not big enough to offset the decline related to the end of Kumtor construction. Accordingly, during the first three quarters of 1998, activity of the sector was only about half as the same period the year before.

11. According to the official statistics, the average annual growth rate for **transport** for 1996–97 was almost 8 percent reflecting an increase in road transport, and a decrease in transport by train, water (at lake Issyk Kul), and air. During 1996–97, the average annual growth rate for **trade and catering** was about 5 percent, while **communications** increased by an average of about 2.5 percent. During the first three quarters of 1998, trade and catering continued to perform well, with a growth rate of almost 9 percent.[8]

12. In the Kyrgyz Republic it is not unusual that a number of **mudslides and floodings** happen every spring. In 1998 however, these natural disasters were much more severe than usual causing significant physical damage and claiming a number of lives. The World Bank and the Asian Development Bank (AsDB) have extended emergency assistance, and the government has established a Housing Fund (see Appendix IV) to reestablish the infrastructure and provide housing for the affected population. Also in the spring of 1998, an **environmental accident** in the Issyk Kul region poisoned lake Issyk Kul with cyanide, which is used in the production of gold at the Kumtor mine. According to a WHO report, the long term effects of the pollution should be minimal, because cyanide decomposes through natural processes. However, the immediate effects were significant, and, given the importance of tourism in the Issyk Kul region, the indirect effects of the incident were substantial. Following the cyanide accident and the mudslides in the spring of 1998, **environmental problems** have received increased attention. The World Bank has been requested to support a project on disposing hazardous waste from past uranium mining activities. It is also supporting a multilateral biodiversity program in the region.

C. Inflation, Wages and the Labor Market

13. Following tight monetary conditions during 1997 and 1998 (see Section IV.A), end-of-period **inflation** dropped to below 15 percent in 1997 from 35 percent at the end of 1996,

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[8]The quality of the statistics covering the **trade and service sectors** is likely to be less accurate than the coverage of other sectors, because of the dominance of new small and medium sized enterprises in these sectors. New small and medium sized enterprises are more likely to be in the informal sector, and thus less likely to be accurately covered in the official statistics.

and continued to fall during the first half of 1998; after the Russia crisis, however, and the substantial depreciation of the som, end-period inflation in 1998 reached 18.4 percent (Table 10 and Figure 2).

14. During 1997 and the first 10 months of 1998 **food prices** (63 percent of the CPI basket) grew faster than the average index, especially those of meat, fish, milk products and eggs. This higher than average increase in the price of animal products reflects the declining supply of these products (see Section II. B). Since late 1996 the price of bread (the largest individual component of the CPI) only rose marginally, reflecting the higher production of wheat. While the **price of services** (10 percent of the CPI basket) in 1997 increased more slowly than the rest of the index, it picked up during 1998, and was by end-October 22 percent higher than at the beginning of the year. During 1997 and the first 10 months of 1998, prices on **nonfood items** (27 percent of the CPI basket) increased by only about 11 percent. The most important administered prices, those of electricity and heating, were stable in 1997, but were increased by about 25 percent in March 1998. During 1997 and the first 10 months of 1998, the end-of-period increase in **Producer Price Index** (PPI) was in line with the development in the CPI (Table 10).

15. From late 1995 until mid-1997, the **minimum wage** was kept constant at som 75 per month;[9] as a result, the real minimum wage fell by more than one-third during this period (Table 11). Average real wages also fell, but only by 10 percent. The minimum wage was raised to som 90 per month in mid-1997, and further to som 100 by January 1998.[10] In total, the average **real wage** increased by about 1 percent in 1997 compared to 1996. Real wages further strengthened by 7 percent during the first 10 months of 1998. The increase in the average wage during 1998 is mainly due to high wage concessions in commerce, and the communication and computer services sectors (Table 12).

16. Overall **employment** rose moderately from 1996 to 1997 by about 2.3 percent, mainly reflecting a continued reduction in industrial employment that was more than offset by job creation in the agricultural sector as well as in the retail trade and catering sectors. The number of positions in other sectors was broadly constant (Table 13). However, part of the increase in agricultural employment reflects laid-off workers from other sectors of the economy finding (temporary) employment with relatives in rural areas, some as subsistence farmers. **Unemployment** continues to be a serious problem, in spite of an official average unemployment rate in 1996 and 1997 of around 4 percent and 3 percent, respectively. The official unemployment rate reflects the number of recipients of unemployment benefits, but does not include an estimate of workers actively seeking jobs without receiving unemployment benefits. The World Bank-supported annual household surveys indicate that the rate of unemployment is probably around 20 percent. In spite of economic growth, the

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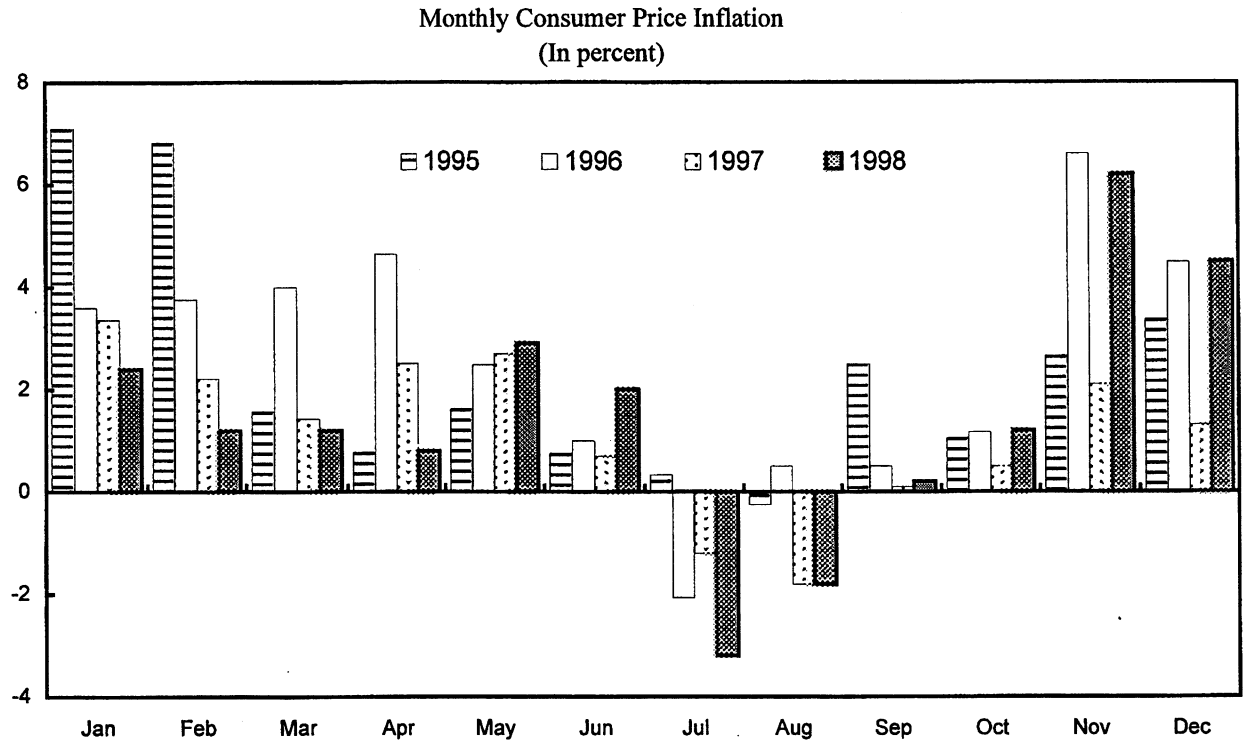
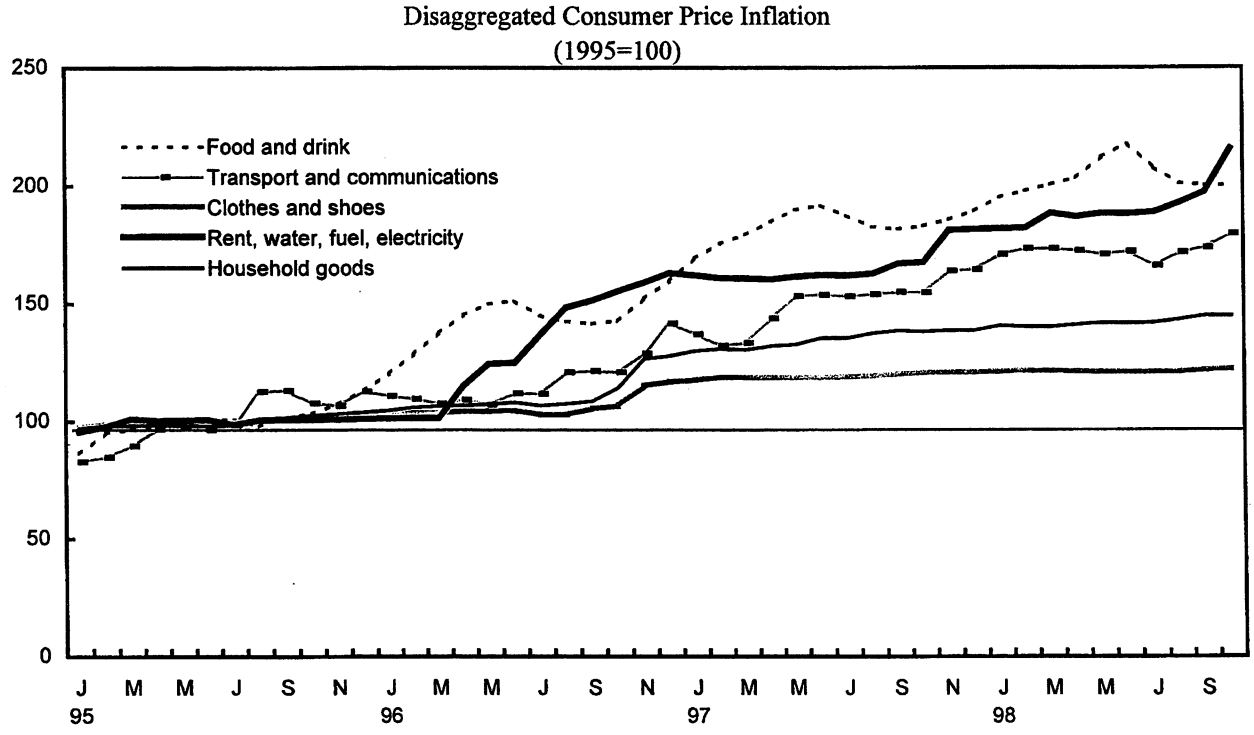
[9]The minimum wage is used as an index to which certain wages, social benefits, and tax rates are linked.

[10]The associated increase in other wages was limited to doctors and teachers.

Figure 2. Kyrgyz Republic: Consumer Price Inflation, 1995-98





Sources: Kyrgyz authorities; and Fund staff estimates.

unemployment rate has probably not been reduced significantly, and unemployment thus continues to be a pressing social problem. Due to the existence of subsistence farming, recorded unemployment levels in rural areas are much lower than in urban areas.

D. Poverty

17. According to the annual household surveys, the share of households living in poverty increased from 54 percent in 1993 to about 70 percent in 1996. There was little change in the overall poverty levels between 1996 and 1997, but the incidence of extreme poverty declined from 19 percent to 15 percent, thanks in particular to a reduction in extreme poverty in urban areas as a result of a reorientation of government benefits toward these groups. The incidence of extreme poverty in rural areas also declined during this period due to strong growth of the agricultural sector. On the other hand, the overall rural poverty level increased from 59 percent to 65 percent while the urban poverty level declined.

E. Structural Reforms

18. Significant but incomplete progress on structural reform has been achieved in the Kyrgyz Republic in the past few years. A large number of small and medium sized enterprises were **privatized** at an early stage of the transition process (Table 14), but since mid-1997, when the World Bank supported mass privatization program was completed, the privatization of state-owned enterprises has slowed down considerably. Initially, the privatization program was halted due to corruption allegations. The investigation led to a change in the management of the State Property Fund (SPF), and the privatization program formally resumed in late 1997. In early 1998, parliament approved a new privatization strategy for the remaining enterprises (about 300). According to this strategy, enterprises can be privatized through a number of different means. A number of tenders for medium sized enterprises were announced during 1998, but only a limited number of bids were received due to high minimum prices, requirements to maintain employment at certain levels and other restrictions. The privatization of remaining enterprises originally included under the Enterprise Reform and Restructuring Agency (ERRA) and of the large state-owned monopolies has proven particularly slow. As a result of the slow progress, privatization receipts for the budget have been below expectations. As in Russia, the "quality" of the privatization in the Kyrgyz Republic can be questioned, with shortcomings in the area of **corporate governance** and limited post-privatization support in place. Accordingly, restructuring and reorganization of privatized enterprises has been slow. A project, supported by the AsDB, has been targeted at enhancing training in modern management and auditing techniques.

19. During the early stages of transition, 49-year **land use rights** were distributed to farmers covering about half of all arable land, thereby officially dismantling the state farms. Nevertheless, the old management structures remained broadly intact due to deep-seated practices, farmers' lack of information about rights associated with the land use rights, lack of access to credit, and difficulties in splitting up, in an efficient way, large fields, infrastructure and equipment originally designed to operate on large farms. The fact that land use rights,

were extended to 99 years in 1995 did not significantly change the overall environment. But, in spite of these shortcomings, positive effects on output materialized in 1996, as farmers gradually adapted to the new market environment.

20. Realizing the importance of the agricultural sector in economic development of the country, the authorities held a referendum in October 1998 to allow **full private ownership of land**, through an amendment to the constitution. The proposed amendment was approved, but an up to five-year moratorium on the sale of land was enacted to allow for appropriate modifications to the relevant laws. It is expected that the moratorium can be lifted within one to two years; until then, land can be traded via sales of land use rights.

21. The banking sector in general does not provide loans to the agricultural sector due to high loan losses in the past in this sector and the lack of a legal foundation to use land as collateral. This has left the sector short of working capital, even though a special credit institution, Kyrgyz Agricultural Finance Corporation (KAFC), was established in 1996, supported by the World Bank (see Appendix IV)

22. A large number of **laws** conducive to economic activity in a market environment have been introduced, including a new bankruptcy law, a new civil code, a law on movable collateral, a new banking law, a new law on the budget, and changes in a number of laws to comply with the recent accession to the WTO. However, progress in drafting and passing a number of other important laws has been slow. These laws include the land code, the law on immovable collateral (land), the land registration law and a revised labor code. The implementation of the land-related legislation has been further delayed due to the changes in the constitution. The existing labor code is still based on old Soviet principles on labor protection etc., but is generally ignored. Its existence, however, adds to the lack of transparency of the general legal framework.

23. **Implementation of laws** remains weak due to inexperience with the new legal environment, and lack of resources to guide and follow-up on the implementation process. Also the functioning of the courts is questionable, and court rulings are not published. Furthermore, publication of new laws or amendments to existing laws is not done in a systematic manner. Projects supported by the World Bank, AsDB and USAID aim at improving the implementation capacity of the legal system.

24. Progress in reforming the **energy sector** has been disappointing. Plans to privatize enterprises in the sector have repeatedly been delayed or have been nontransparent, and necessary increases in energy tariffs have been postponed or only partially been implemented. Accordingly, the financial status of the main energy company, KyrgyzEnergo, has been deteriorating rapidly with financial losses in 1998 of more than som 0.5 billion. It is estimated that theft of electricity by households increased from 50 percent of total household consumption in 1996 to more than 60 percent in 1997. Moreover, a number of special privileges and discounts exist, and only 15 percent of total production for domestic use was actually billed at and paid for at full tariff. At the present collection rate it is estimated that the

price of electricity would have to be increased by more than 200 percent to reach cost recovery levels.

25. The authorities have made significant progress in the production of **statistical information**, supported by technical assistance from the IMF, the World Bank, OECD and other multilateral and bilateral donors. **National accounts** are now compiled according to the 1993 SNA standard, and an annual publication on the national accounts has been developed. The accuracy of the national accounts, however, still needs to be improved due to the relatively poor quality of primary data; a World Bank project is targeted at this problem. Price indices have been compiled according to international standards, and are published on a monthly basis. Since mid-1998 the Kyrgyz Republic has published a page in the IFS.

III. Fiscal Sector

A. Public Sector Reform

26. The state budget covers the operations of the republican government and the six regional oblast authorities. It reflects net transfers to extra budgetary funds (mainly the Social Fund) and state enterprises. Starting in 1998, the Public Investment Program (PIP) has been incorporated into the budget document. The Social Fund budget is prepared separately, but submitted together with the state budget to parliament for approval.

27. Since 1996 strong progress has been made in improving **budgetary procedures**. In May 1998 a new Law on the Principles of the Budget was passed,[11] which establishes detailed budgetary procedures. These include a time frame for the submission to parliament of the draft budget and the submission of a "Report on Budget Policy and Strategy". Furthermore, they require consolidation of the PIP and all extra budgetary funds into the budget document, and the development of a medium-term financial planning horizon. The PSRMAC program also focused at restructuring intergovernmental fiscal relations and auditing.

28. The **treasury system**, established in 1995 with the assistance of the IMF, consists of a central treasury department in the Ministry of Finance (MoF) and 65 regional offices. In the treasury system, procedures have been established to ensure that all public revenues at the republican, oblast, and rayon levels are deposited into a single treasury account, and that all expenditures out of this account must be authorized by the treasury. In order to improve the monitoring of budget execution, a **Cabinet Budget Commission** has been established. This commission is responsible for cutting expenditures in case of revenue shortfalls and, in line with its mandate, it successfully implemented significant spending cuts in late 1997. From the beginning of 1998, the MoF has issued monthly **expenditure warrants** to all spending units in line with the current revenue situation. These warrants establish the upper limit for

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[11]The principles of the law were essentially followed already during the drafting of the 1998 budget in the second half of 1997. The law was established under the World Bank Public Sector Resource Management Adjustment Credit (PSRMAC) program.

expenditures on a commitment basis. However, the warrant system has not worked according to intentions due to difficulties in estimating revenues with sufficient accuracy, and because of unforseen spending needs associated with natural disasters during the spring. Furthermore, in the fourth quarter of 1998 many spending units largely ignored the system, thus leading to the rapid buildup of expenditure arrears. In October 1998 a change in the Kyrgyz **constitution** strictly limited the powers of parliament in connection with changes in the budget. As a result, parliament can no longer introduce changes to the budget unless the government agrees. This should facilitate future passage by parliament of supplementary budgets proposed by the government.

29. A new **revenue sharing system** has been established between the central and local governments. The old system was based on structures inherited from the Soviet era and included annual negotiations regarding the size of the allocations. It did not force a hard budget constraint on local budgets, resources were often misallocated in case of revenue shortfalls, and it could not guarantee essential services at the local level. Under the new system, each oblast receives 35 percent of revenues from income, profit and excise taxes collected on its territory. Oblasts receive earmarked categorical grants from the central government to maintain minimum services in health and education to pay for salaries, social insurance contributions and stipends in these sectors. Poorer oblasts receive transfers from the central government, calculated according to a fixed formula, to be able to provide general public services. To improve incentives for local governments to collect taxes, local excise taxes and fees can be adopted, and the national sales tax has been converted into a local tax. The new budget law also specifies the expenditure responsibilities of different levels of government. Since local governments do not have access to financing, local governments' budgets must be balanced.

30. An action plan for **civil service reform** has been drafted, supported by EU TACIS. The reform aims at reviewing and classifying every civil service position, eliminating all redundant positions, reorganizing ministries, modernizing management techniques, enhancing the merit system, and improving civil servants' qualifications. A Code of Conduct for civil servants emphasizing the concept of individual accountability and defining sanctions and penalties for abuse of power was submitted to parliament in December 1998. A detailed reform of the presidents' administration, to be seen as an example for other government bodies, is also under preparation.

31. In 1996 the government established six **Free Economic Zones** (FEZs) to attract foreign investment and management expertise. In 1997 a new law on Free Economic Zones (FEZ) was passed. Under this law, businesses in a FEZ are partially or fully relieved of custom duties, excises, VAT, and income taxes. Furthermore, the State Tax Inspectorate (STI) is limited to conducting inspections only once a year. However, very limited production resources have been attracted into the FEZs, and ineffective monitoring has lead to abuse (see Section V.A). In July 1998 a special committee was established to evaluate the activities of the FEZs. The committee adopted a plan to strengthen the administrative supervision of FEZs and identified three nonviable ones (Alai, Chong-Alai and Kara-Kulja), which were closed in

late December 1998. At the same time, a draft law stipulating revisions to the current regulations on the remaining FEZs has been submitted to parliament.

B. Budgetary Developments during 1997 and the First Three Quarters of 1998

32. Over the last three years the Kyrgyz Republic has gradually reduced the fiscal deficit by undertaking substantial fiscal measures. From 1995 to 1997 the cash deficit declined from above 17 percent to 9 percent of GDP (Table 15), mainly as a result of lower spending and higher nontax revenue, while tax revenue collection in percent of GDP only improved marginally. Preliminary estimates indicate that the cash deficit in 1998 remained broadly constant at 8.8 percent of GDP, while the accrual deficit increased to 9.9 percent of GDP due to the government's inability to reduce expenditure commitments in line with the reduced availability of resources. An increasing proportion of the deficit has been financed through external sources, while the central bank has ceased to provide financing to the budget effective January 1998 (Figure 3).

Developments during 1997

33. In general, the taxes that performed well during 1997 were related to the trade and agricultural sectors, while income taxes registered a weak performance due to exemptions and the general slowdown in economic activity. Between 1996 and 1997 **overall revenues** increased by 0.3 percentage points to 16.2 percent of GDP (Table 16). While **tax revenue**, grants and capital revenue declined by 0.2 percent, 0.3 percent, and 0.9 percent of GDP, respectively, these shortfalls were more than compensated by a surge in **nontax revenue** from 1.1 percent to 2.6 percent of GDP, as a result of higher revenues from fees and charges imposed by line ministries. **VAT** remained the most important revenue source, followed by income taxes and excises. In spite of significant improvements in administration, enterprises are only rarely credited for VAT payed on inputs. Accordingly, the VAT functions like a turnover tax. The share of **excises** in GDP increased rapidly to 1.5 percent thanks in part to the harmonization of excise rates on imported and domestically produced goods (except on beer, champagne, and cognac) and the reinstitution of the excise on gasoline products. **Land tax** revenues improved significantly on account of improved collection of arrears and a strong growth of the agricultural sector. The share of **income tax** in GDP declined from 2.9 percent in 1996 to 2.2 percent in 1997 mirroring the declining activity in the industrial sector not exempted from income tax.[12] The government does not accept tax payments in kind, but more than 20 percent of tax revenues are collected through tax offsets.

34. **Total expenditures** were reduced from 25.3 percent in 1996 to 25.1 percent of GDP in 1997 thanks to a slightly lower wage bill, reduced transfers and subsidies, and lower net lending (Table 15). However, **current expenditures** increased from 21 percent of GDP to 21.4 percent due to an increase in purchases of other goods and services. The **wage bill** was

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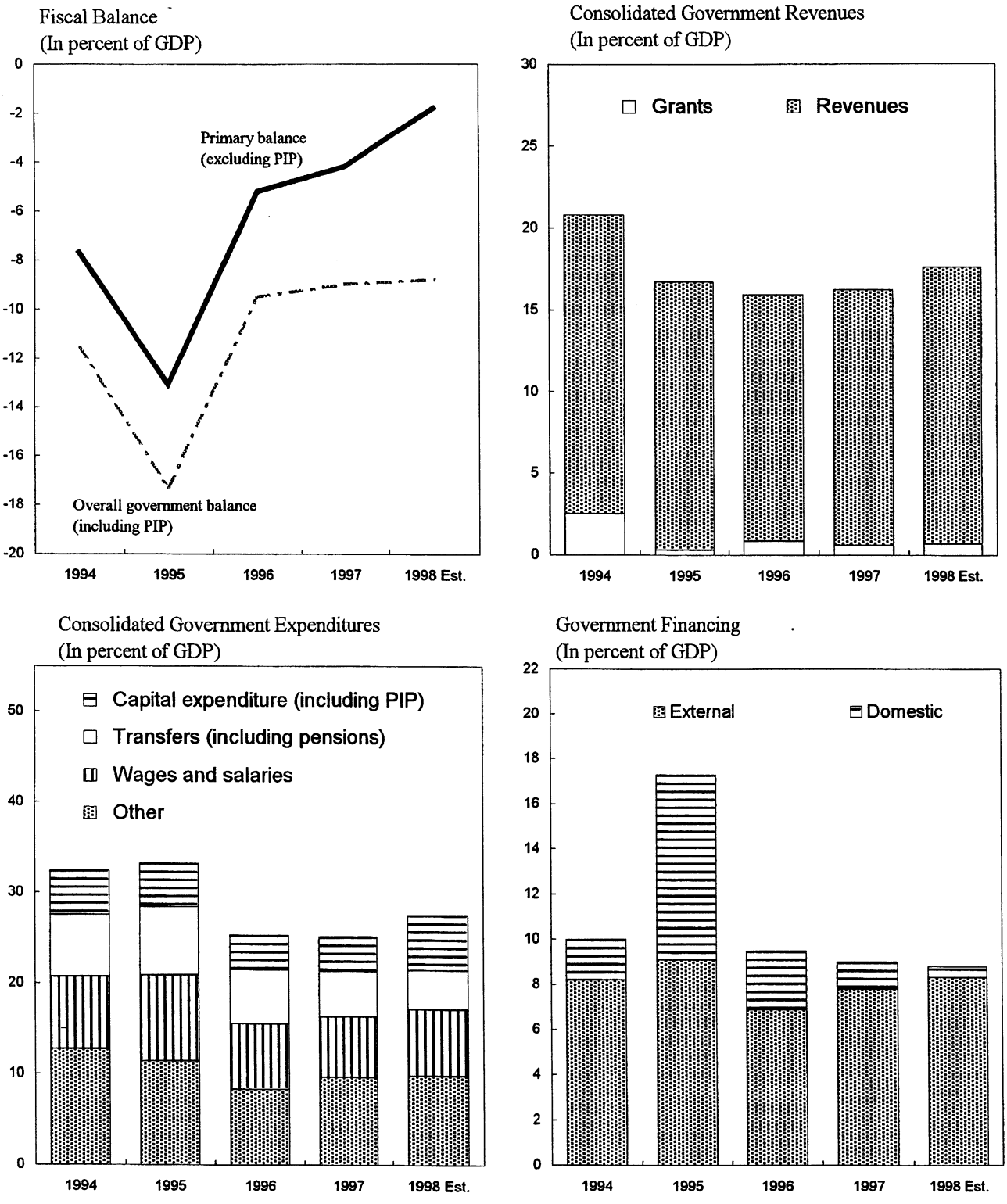
[12]As real growth in 1997 mainly came from the agricultural sector and from Kumtor, both exempt from income taxes, income tax revenues did not benefit from the increase in activity.

Figure 3. Kyrgyz Republic: Fiscal Developments, 1994-98



Sources: National authorities; and Fund staff estimates.

lower as a result of a government resolution to cut **material support**, a component of the wage bill, from 4 months of salary to 2 months of salary, and due to postponed increases in the minimum wage, in line with the ESAF program. However, **subsidies to the Social Fund** increased from 1.3 percent of GDP to 1.5 percent because of revenue shortfalls encountered by the Social Fund. Domestic **interest payments** jumped by about 0.5 percent of GDP due to interest payments on bonds issued in connection with the restructuring of the banking system (FINSAC). **Budget loan repayments** picked up considerably from 0.8 percent of GDP to 1.8 percent, and, as a result, **net lending** expenditures in 1997 were 0.5 percent of GDP lower than in 1996. The stock of state expenditure arrears declined from 0.8 percent of GDP in 1996 to 0.5 percent in 1997, while pension arrears resurfaced to just below 0.1 percent of GDP. **Capital expenditures** remained constant as a share in GDP at 3.8 percent, with the same composition between domestic investment and foreign financed investment projects. The composition of expenditures from 1996 to 1997 showed an increase in expenditures on defense from 5.6 percent of total spending to 6.8 percent, while the shares of education and health spending declined from 23.7 and 14.2 percent to 21.8 and 13.1 percent, respectively (Table 17).

35. Since 1994, expenditures as a share of GDP have declined steadily, and revenues have recovered. Accordingly, the **financing needs** of the budget have declined, and the composition shifted in the direction of external financing, the share of which increased from about 73 percent in 1996 to about 87 percent in 1997. This shift parallels a decline in privatization receipts in 1997 and the gradual elimination of direct credit from the NBKR (see Section IV.A).

Developments in the first three quarters of 1998

36. The fiscal adjustment continued in 1998, in spite of slippages in the second quarter of 1998 due to natural disasters, the decision of the government to guarantee and pay for an Airbus lease, and, in the third quarter, the deteriorating external environment after the outbreak of the Russian crisis (Table 15). In general, deviations from the budget targets under the ESAF program mainly reflected expenditure overruns, while revenues were broadly in line with expectations. The overall budget deficit of the state government (on an accrual basis) is estimated to have increased from 8.9 percent of GDP in 1997 to 9.9 percent in 1998. For the first three quarters of 1998, the **cash deficit** was 0.2 percentage points lower than the program target at 5.8 percent of GDP, but the **accrual deficit** exceeded the program target by 0.5 percentage points at 6.2 percent because of new expenditure arrears. Expenditure commitments exceeded available revenue and the monthly spending warrants did not effectively cut expenditures. The accompanying buildup of expenditure arrears was exacerbated by lower domestic financing, which was 0.3 percent of GDP below projections, mainly as a result of the drying up of the treasury bill market after the Russian crisis (see below). Accordingly, the deficit was financed primarily through external sources.

37. **Tax collections** during the first three quarters of 1998 were buoyant, and exceeded the ESAF program target by 0.5 percent of GDP (Table 16). This reflects improved collection

of tax arrears, as a result of a comprehensive action plan adopted by the State Tax Inspectorate (STI), but also higher revenues from custom duties and excises, benefitting from the surge in imports from non-CIS countries. **Total revenues**, however, fell short of expectations due to delays in the disbursement of grants.

38. The overall revenue trends from 1997 continued during the first three quarters of 1998, with **VAT** remaining the most important revenue source, with a share in tax revenue of around 42 percent, followed by **income taxes** around 19 percent, **excise taxes** at 14 percent, and **custom duties** at 6 percent (Table 16). Broadly speaking, the taxes that performed well during 1998 benefitted from changes in tax rates and/or administrative changes, while taxes that did not perform well were negatively affected by weak economic developments. Thus, while the share of the **income tax** has continued to decline due to unprofitable state enterprises and an underdeveloped private sector, the share of **VAT** has increased because of the move to the destination principle vis-a-vis Uzbekistan and Kazakhstan. Removal of the **custom duty** exemptions for certain enterprises, simplification of the custom rules, and improved administrative practices has contributed to higher custom duties collection. **Excise** rates were harmonized for all imported and domestic products in 1998. However, since the equalization for the rates was usually at the lower rates, the harmonization led to lower average rates. The excise base was broadened by repealing all existing exemptions on gasoline products; about 70 percent of excise revenue comes from petroleum products. Collection of **land taxes** suffered from the exemptions granted to the areas affected by the natural disasters; however, the **road tax and the emergency fund tax** performed well as the government speeded up collections for the relief of the natural disasters. The share of **other taxes** declined from 1 percent of GDP in 1995 to around 0.4 percent in the first three quarters of 1998, and tax arrears have been significantly reduced due to the hefty fines imposed on delayed payments.

39. The share of **nontax revenue** in GDP continued to rise during 1998. This development reflected a decision by line ministries to impose additional fees and charges to compensate for lower transfers from the treasury. It may also be due, however, to continued improvements in capturing such fees by the treasury system. The share of **capital revenue** has fluctuated, reflecting specific government decisions to sell from its strategic grain stock, as was the case in the third quarter of 1998.

40. The share of **foreign grants** in GDP has increased steadily, and stood at around 1.2 percent of GDP for the first nine months in 1998. However, disbursements of grants during the first three quarters of 1998 was below projections, partly reflecting disbursement delays and difficulties in cashing in some of the commodity grants due to market demand constraints.

41. The share of **current spending** in total spending declined from 85 percent in 1997 to about 80 percent in 1998, while that of capital expenditures increased from about 15 percent to 20 percent (Table 17). In the first nine months of 1998, **total expenditures** on a cash basis were lower than expected, leading to a 0.2 percent of GDP lower-than-expected cash deficit.

Total expenditures on an accrual basis, however, were higher than programmed on account of increased purchases of other goods and services, higher interest payments, and higher net lending. **Current expenditures** as a percent of GDP stayed roughly constant in 1998 at around 21 percent. The **wage bill** is estimated to have increased by about 0.3 percent of GDP as a result of the wage increase implemented in January 1998. **Interest payments** are estimated to be slightly higher than in 1997, with lower domestic interest payments being offset by higher foreign interest payments on account of the depreciated exchange rate. Spending on all other categories is estimated to be lower than originally expected. The higher accrual expenditures were associated with increased spending needs due to natural disasters in the second quarter, and a payment on a government guarantee on an Airbus lease. During the third quarter, the authorities strived to reduce the expenditure arrears at the republican level: wage arrears were significantly reduced, and the arrears to KyrgyzEnergo were cleared. However, pension arrears remained at about 0.3 percent of GDP, and at the end of September, total expenditure arrears were around 0.4 percent of GDP.

42. **Budget loan repayments** amounted only to 0.6 percent of GDP, and were about 1.1 percent of GDP lower than in 1997, due to shrinking economic activity following the Russian crisis. More than 75 percent of budget loan collections were in-kind, leading to serious administrative difficulties. As a result, **net lending** outlays were 0.5 percent of GDP higher than projected. **Capital investment** as a share of GDP increased from 3.8 percent in 1997 to about 6.1 percent in 1998, although some of the increase reflects a more depreciated exchange rate. Domestic investment only increased marginally. Expenditures on **health and education** fell short of their end-September targets by som 60 million and som 80 million respectively. The main factor behind the shortfall in spending on health was lower-than-anticipated spending by the Medical Insurance Fund.

43. Higher expenditure, insufficient revenue and financing, and delayed adjustments to budgetary commitments led to significant **expenditure arrears** in the first three quarters of 1998. Domestic financing fell short of projections due to lower privatization receipts and a decrease in the demand for **treasury bills.** The volume of newly sold treasury bills of all maturities dropped from an average of more than som 20 million per month during the first half of 1998 to an average of less than som 5 million since September (Table 23).[13] While the stock of outstanding government securities rose rapidly from som 1.95 billion at end-1997 to som 2.3 billion in mid-1998, it leveled off after the onset of the Russia crisis (Table 26).This sudden change in demand led to a virtual drying up of the domestic treasury bill market, with new bill issues not even covering the redemption of maturing securities, thus yielding a negative net financing of the budget.

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[13]While up to 1997 three-month maturities accounted for the bulk of outstanding treasury bills, the three different maturities have had about the same shares of newly issued maturities during 1998.

C. Tax Policy and Administration

44. A number of tax **exemptions** are still included in the tax code that was introduced in 1996, complicating tax administration and collection (see Appendix III). For example, the agricultural sector still enjoys exemption from the income tax and VAT, and individuals are exempt from the capital gains tax. All discretionary custom duty exemptions granted by the government were repealed in early 1998. A new amendment to the Custom Code was passed in October 1998, stipulating that only the parliament has the right to change custom duties. In mid-1998, the parliament decided to reduce the land tax rate by 50 percent in order to stimulate the agricultural sector. However, the government has appealed this decision to the Constitutional Court, because parliament did not decide on alternative revenue measures to compensate the loss of revenue as required under the constitution. The government is planning a new land tax on urban land. A Large Taxpayer Unit, covering about 500 large enterprises, has been established under the STI.

45. The collection of **tax arrears** has improved as a result of a new regulation that allows the STI to issue a payment order on a delinquent's bank account. This is a part of a comprehensive action plan, which targets large delinquent taxpayers and conducts frequent on site check-ups. A decree prohibiting the writing-off of tax arrears was issued in June 1998 leading to a reduction in the stock of tax arrears from 2.3 percent of GDP at end-1997 to 1.4 percent of GDP at end-September 1998. Tax offsets have risen from 20 percent of tax collections in 1997 to around 24 percent in the first three quarters of 1998, as business activity declined with the onset of the Russia crisis.

D. Pension Reform

46. The Social Fund, which manages the pension system, has for a number of years been a major and unsustainable drain on the budget due to high pension commitments that are not financed through commensurate pension contributions (see SM/97/274, Appendix I). Budget subsidies to the Social Fund increased from 1.3 percent of GDP in 1996 to 1.5 percent in 1997, but are estimated to have decreased to 1.1 percent of GDP in 1998, showing the impact of some first measures to reform the pension system. In the first three quarters of 1998 large wage arrears led to low collections. Total expenditures of the Social Fund decreased from 8.3 percent of GDP in 1996 to 7.5 percent in 1997, but are estimated to have increased again to around 7.8 percent in 1998 because of a "pension equalization scheme" introduced in the beginning of last year. This scheme partly compensated pre-1994 pensioners for past inflation.

47. In 1997 a new pension law was adopted which introduced the principle of a "Notional Defined Contribution" (NDC) system functioning like an annuity financed by current "Pay-as-you-Go" revenue. Under the World Bank-supported Social Sector Adjustment Credit (SOSAC), the government has agreed on a comprehensive pension reform aiming at increasing the ratio of contributors to beneficiaries, decreasing the replacement rate, strengthening the link between contributions and benefits, and providing a social safety net for

the poorest pensioners. In line with these objectives, an amendment to the Pension Law was introduced in June 1998. The retirement age was increased by 4 months, and is scheduled to be increased further by 4 months in each of the coming years 8 years until it has increased by 3 years for both men and women. Furthermore, pensions to working pensioners who earn more than the average wage were reduced by 50 percent.[14] Also the minimum required years of service to qualify for full benefits will be increased to 30 years for men and 25 years for women. However, in late 1998 the supreme court ruled these changes to the pension system unconstitutional. The government has since then submitted a revised pension reform to parliament for approval. This proposal includes changes which are close to the original reform agreed with the World Bank.

IV. Monetary and Financial Sector

A. Monetary and Exchange Rate Developments in 1997 and 1998

48. Monetary and exchange rate developments in 1997 and 1998 were marked by three distinct phases:

- all of 1997: monetary growth patterns largely reflected the disbursement of external balance of payments support, with a moderate growth in commercial banks' deposit base, a largely dormant domestic credit market, and a broadly stable exchange rate;

- end-1997 to mid-August 1998: a remonetization of the economy occurred, with a substantial increase in money demand and commercial banks' credit extension to the economy, as well as a moderate, gradual depreciation of the som; and

- mid-August 1998 to end-1998: in the aftermath of the Russia crisis turmoil in the foreign exchange market caused banks to reconsider their credit portfolio decisions, households and enterprises began to abandon the som in favor of dollar cash and deposits, and the exchange rate depreciated sharply.

49. During the entire period, the twelve-month **inflation** fell from about 35 percent at end-1996 to 18.4 percent at end-December 1998, reflecting to a large extent the slowdown in monetary growth rates compared to the preceding years. Broad and reserve money grew at only slightly above 20 percent in 1997, less than one third and one fourth of the respective growth rates in 1996. While both monetary aggregates expanded at a rapid pace during the first half of 1998, the cumulative growth rate of broad money and reserve money since the beginning of the year decelerated to an estimated 17.1 percent and 6.8 percent, respectively, by end-year (Tables 20 and 21).

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[14]After initially approving stronger measures, parliament challenged them and slowed down the increase in the retirement age while also reduced the impact of the reduction in pensions to working pensioners to only affect the highest paid working pensioners.

50. **Velocity**, which has shown a declining trend since the introduction of the som in 1993 (Figure 4)—notwithstanding strong quarterly volatility in view of GDP seasonality marked by the dominant role of agriculture in the Kyrgyz economy— rebounded during the second half of 1998 in view of the flight out of the som into U.S. dollars in the wake of the Russia crisis. The relative strengthening of money demand before the outbreak of the Russia crisis reflected the increased confidence in the banking system (see Section IV.B) and the currency. At the same time, with the significant strengthening of commercial banks' deposit base, **broad money** growth began to expand at a much faster pace than reserve money, as illustrated by the sharp increase and instability of the **money multiplier**, which rose from about 1.3 at end-1996 to close to 1.6 by end-October 1998. This strengthening of money demand is also illustrated by the findings of an econometric study on currency substitution in the Kyrgyz economy (Appendix I), which stresses that currency substitution appears to be a function of the expected exchange rate depreciation and the interest rate differential. The study also concludes that the economy as a whole has not yet reached a level of dollarization that would make the currency substitution process asymmetric and difficult to reverse, although more sophisticated investors appear to be prone to keeping their investments in dollar-denominated assets (Figure 5).

51. In its conduct of monetary policy the NBKR benefitted from a significant enhancement of its set of **monetary policy instruments** (Section IV.C). In particular, it allowed the NBKR to partially sterilize the bunching of inflows of foreign assistance, mop up commercial banks' excess liquidity, and thus smooth out the previously strongly erratic pattern of reserve money growth.

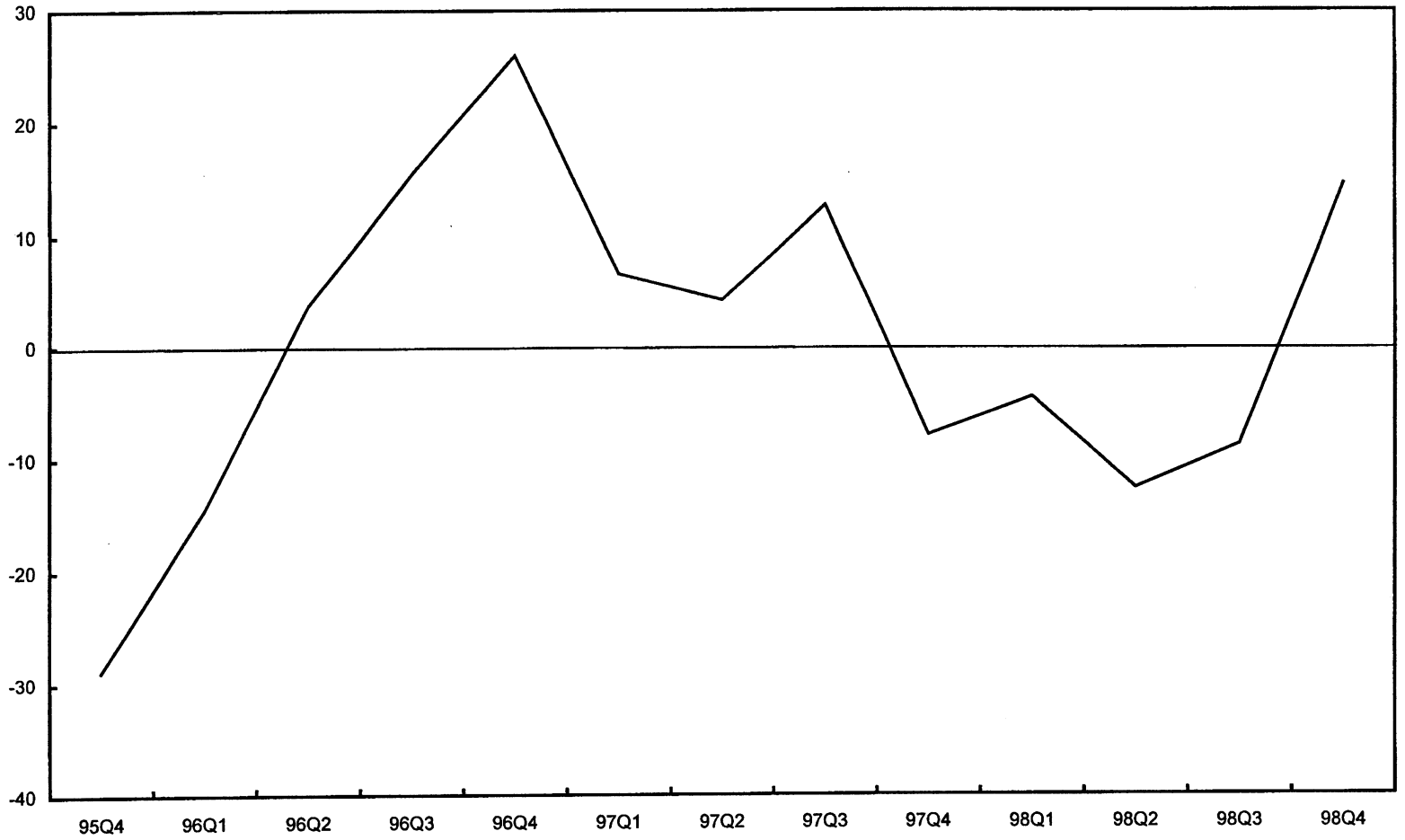
52. The expansion of **credit to the economy** was fueled by the resumption of private sector activity, the availability of external credit lines (e.g., from the EBRD), and other onlending through the CIS interbank market (e.g., from Kazakh banks). After having been flat during the first nine months of 1997, credit to the economy grew by 22 percent during the last quarter of 1997 and by 25 percent and 16 percent, respectively, during the first and second quarter of 1998, before abating sharply as a result of the Russia crisis (Figure 6).

53. **Depreciation expectations** appear to have been curtailed significantly during 1997 when the som exhibited a remarkable degree of stability, fluctuating within a relatively narrow band of 17–17.5 soms per dollar throughout the year (Table 30). However, the som began to depreciate gradually in the spring of 1998 with the emergence of the first signs of a currency crisis in Russia, briefly exceeding the 20 som per dollar mark in late May. The NBKR responded appropriately by tightening monetary conditions, which resulted in a moderate appreciation of the exchange rate.

54. With the eruption of the Russia crisis on August 17, the som came under heavy pressure and, notwithstanding an additional tightening of monetary conditions and **large-scale interventions** by the NBKR, the exchange rate depreciated by 11 percent to about som 22 per U.S. dollar by mid-September. During the period, the NBKR lost about 7 percent of its end-July gross reserves through interventions in the foreign exchange market. Phases of

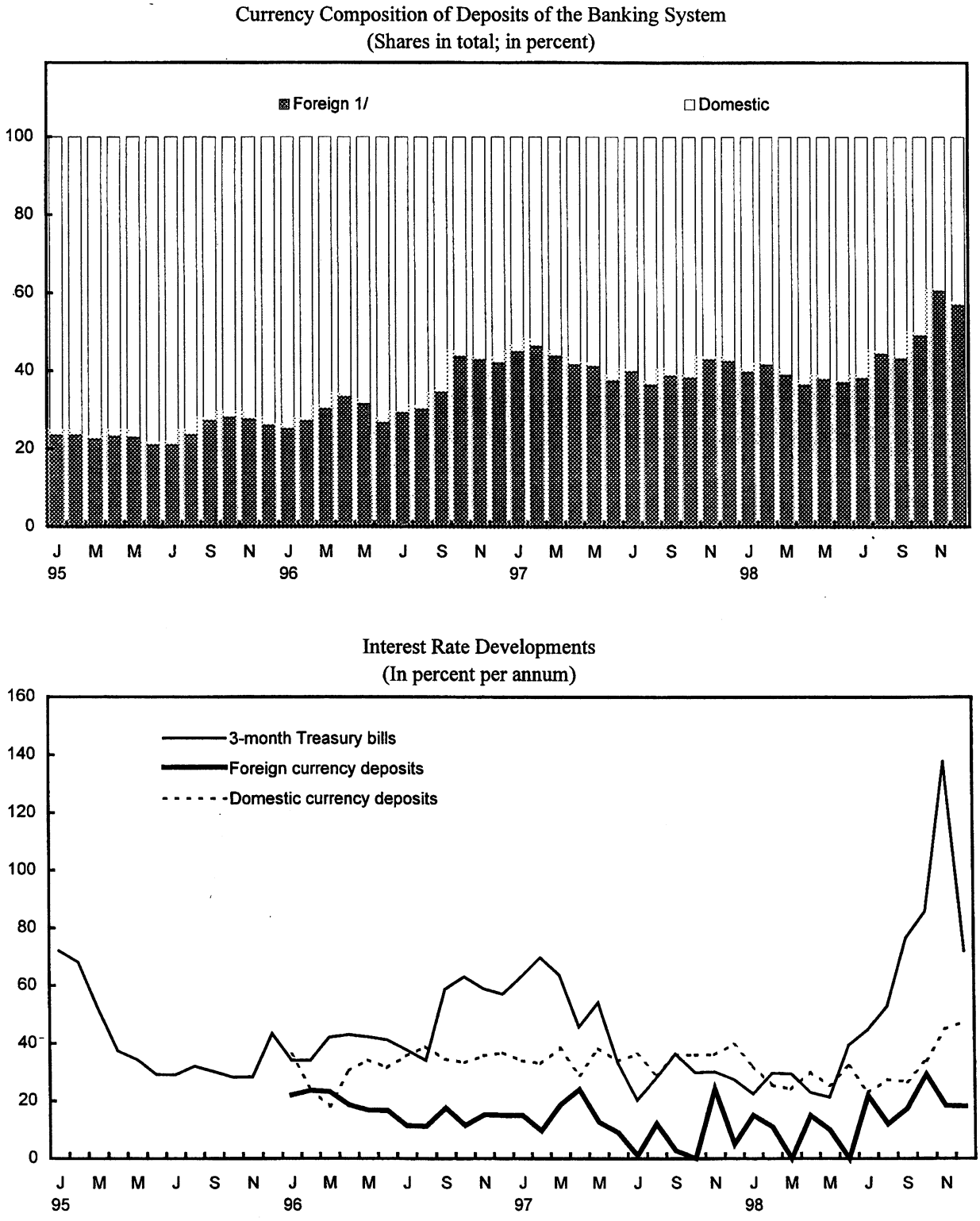
Figure 4. Kyrgyz Republic: Broad Money Velocity, 1995-98

(Percentage change from year earlier)



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

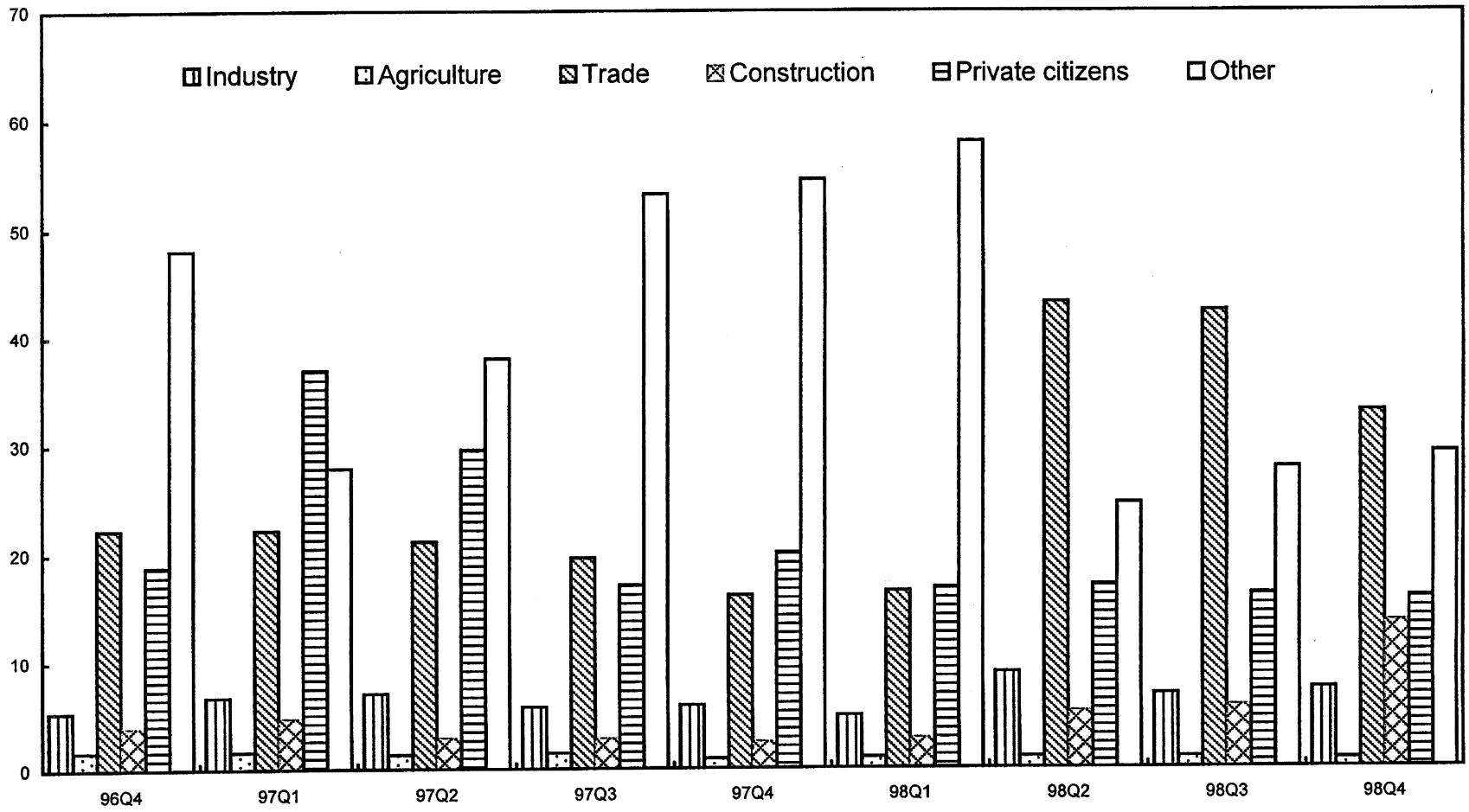
Figure 5. Kyrgyz Republic: Selected Monetary Indicators, 1995-98



Sources: Kyrgyz authorities; and Fund staff estimates.

1/ Foreign currency deposits valued at actual exchange rates.

Figure 6. Kyrgyz Republic: Composition of Credit to the Economy by Sector, 1996-98
(In percent of total)



Sources: Data provided by the Kyrgyz authorities; and Fund staff estimates.

renewed pressure re-emerged during the second half of October. At the same time, foreign investors, mainly Russian and Kazakh banks, added to the pressure on the som by rapidly abandoning Kyrgyz government securities; the share of non-resident holders of treasury bills fell from about 18 percent at end-June to less than 5 percent at end-October (Table 26). As of end-December 1998, the som hovered at around som 30 per U.S. dollar, or 40 percent weaker than a year earlier.

B. Interest Rates and Credit and Deposit Developments

55. Key **central bank rates** were cut in half during 1997; the discount (prime interest) and Lombard rates were reduced from 47 percent and 56 percent, respectively, at the beginning of the year, to 22 percent and 26 percent, respectively, a year later. In the wake of the financial market instability spilling over from Russia in mid-1998, the NBKR increased its key interest rates sharply in several steps, first in early June, and second—more steeply—in mid-August, when the full-blown Russia crisis broke out. **The discount and the Lombard rates** were raised in successive steps to 50 percent and 84 percent, respectively, by end-November. With a view to increasing its leverage on monetary conditions, the NBKR temporarily delinked both rates from the weighted average yield on three-month treasury bills effective June and began to set them independently before relinking them to market rates on December 1, 1998; at end-1998, the discount rate and the Lombard rate were 33 percent and 91 percent, respectively (Table 22).

56. In line with the steadily declining rate of inflation, the benchmark interest rate on three-month **treasury bills** dropped by two-thirds, from 63 percent in January 1997 to 22 percent May 1998 (Table 23). After the outbreak of the Russian crisis, the three-month interest rate climbed steadily to 116 percent in early November 1998. In addition, the Russian debt moratorium created some doubts among holders of Kyrgyz government securities as to whether the government would honor its treasury bill obligations, requiring a substantial risk premium on such bills. While the yields of six- and twelve month maturities have traditionally ranged a couple of percentage points above the ones on three-month treasury bills, an inverse yield curve emerged in mid-August 1998. At the peak of interest rates in early November, twelve-month bills yielded 87 percent compared to 100 percent for six-month bills and 143 percent for three-month bills.

57. **Interest rates on credits** extended by the banking system followed the general interest rate trend throughout 1997 and 1998. Interest rates on loans extended in U.S. dollars—about 55 percent of all credits—fell from about 60 percent in early 1997 to less than 30 percent in January 1998 before increasing to more than 40 percent by end-1998. Interest rates on som credits moved in parallel, but generally at a much higher level and with a larger degree of volatility. At times the spread was more than 30 percentage points. The share of loans with a maturity of one year or more increased from about 14 percent at end-1997 to 25 percent at end-1998, reflecting to a large extent projects financed under the various external credit lines (Tables 24 and 28).

58. Even though interest rates on som deposits have been remarkably stable at about 30 percent during the last three years and did not follow the roller-coaster trend on the credit side, Kyrgyz banks succeeded in significantly broadening their **deposit base**. The increased confidence of the public in the banking system is illustrated by the rising share of noncorporate deposits, which doubled from about 30 percent at end-1996 to close to 60 percent two years later. About half of the deposits are held in foreign currency, thereby matching the respective share of foreign currency denominated credits and limiting the banks' foreign exchange risk. However, four-fifth of deposits have a maturity of six months of less, compared to a share of about 50 percent in credits, thereby exposing banks somewhat to a sudden withdrawal of deposits (Tables 28 and 29).

C. Instruments of Monetary Policy

59. The NBKR's monetary policy framework was strengthened considerably in 1997 and 1998. Most importantly, the **new Central Bank Law**, which became effective on January 1, 1998, represents a major milestone in establishing the NBKR's independence by forbidding the NBKR to extend any direct credit to the government. In addition, the set of **monetary policy instruments** at the NBKR's disposal has been enhanced by the introduction of repurchase agreements to inject liquidity and of reverse repurchase agreements to absorb liquidity; the fine tuning of the regulations governing reserve requirements; and lately the reactivation of the Lombard window, which banks had used only sparingly during most of 1997 and 1998. The conduct of monetary policy was also facilitated by the full introduction of a new chart of accounts for the NBKR and commercial banks in 1997 and further enhancements in statistics and liquidity forecasting techniques. Finally, the NBKR substantially modernized the **interbank markets** for foreign exchange and loanable funds as well as the secondary market for treasury bills, contributing to the surge in transactions and turnover in all of them.[15]

60. Since May 1997 the NBKR has used **open market-type instruments** to implement its policy. Agreements to absorb liquidity have initially been offered with three- and six-month maturities only, but responding to demand by the banking system the NBKR later on also began to offer such agreements with shorter maturities, at times as short as three days. Given the generally tight monetary conditions during most of 1997 and 1998, the NBKR has only sparingly injected liquidity, and generally at very short maturities, ranging from 3 days to 30 days. The government securities used are generally GSOs[16] to absorb liquidity and treasury

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[15]For example, the monthly turnover volume in the secondary treasury bill market averaged som 248 million during the 1½ years leading to June 1998, but averaged som 691 million between July and September 1998.

[16]The GSOs were created in May and June 1997 by securitizing previously extended NBKR credits to the government. More recently, the government and the NBKR reached a comprehensive debt restructuring agreement to convert the remaining NBKR credits to the

(continued...)

bills that are purchased in the secondary market to inject liquidity. Interest rates on the agreements tend to closely mirror the results of the latest treasury bill auction. After soliciting bids from banks, it is at the discretion of the NBKR whether or not to deal, and the results are generally not published.

61. The NBKR used most heavily **reverse repurchase operations** in late 1997 when the stock of outstanding agreements reached som 183 million, or 6 percent of reserve money, and in mid-August 1998 immediately following the outbreak of the Russia crisis, when the stock of reverse repos topped som 100 million, or 3½ percent of reserve money. Since then, reliance on reverse repos has declined in view of the withdrawal of liquidity through other means, in particular foreign exchange sales.

62. The **reserve requirement** ratio has remained unchanged at 20 percent since early 1997. Required reserves apply to all deposits in U.S. dollars and soms, and can be held in currency and deposits at the central bank, both in national currency only. On July 1, 1998, the NBKR introduced two significant changes to the regulations governing reserve requirements: first, it shortened the reporting period from one month to half a month, leading to a closer matching of reserve requirements with changes in deposits and forcing banks to be more proactive in managing their reserves; and second, it began to systematically reduce the compensation paid on banks' required reserves.[17] Effective August 1998, the NBKR also sharply raised the penalty rates for noncompliance with reserve requirements to twice the Lombard rate, while it had previously been set at 1.4 times the prevailing three-month treasury bill rate in the primary market.

63. In the wake of the Russia crisis, the NBKR has targeted a significant reduction in **banks' excess reserves** with a view to reducing the banks' ability to speculate in the foreign exchange market. As a consequence, the banking system as a whole has experienced acute reserve shortages on several occasions since mid-August, with the system's excess reserves having at times been negative for days and close to zero over successive reserve reporting periods. In addition, to curb the non-observance of reserve requirements in spite of the

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[16](...continued)
government into securities which was implemented at end-1998. While this should provide the NBKR with an ample stock for conducting reverse repos, the NBKR may need to pay a premium due to certain non-market characteristics of the GSOs and face difficulties in appropriately pricing them on a day-to-day basis.

[17]Prior to July 1, 1998, the NBKR fully compensated banks for required reserves at the rate of each respective bank's weighted average cost of deposits. Beginning July 1, the NBKR is to gradually reduce compensation on reserves to a final share of 50 percent of each bank's average cost of deposits, which is to be reached by 2000. The reduction is being applied by a rate of 2.5 percent per month and was 85 percent by end-1998.

significantly raised penalties,[18] the NBKR decided in mid-November to place those banks that have failed to observe reserve requirements three times in a row under direct supervision and those banks with six nonobservances in a row under temporary administration of the NBKR.

64. The **Lombard window**, under which banks can pledge government securities with a remaining maturity of at least two weeks as collateral to borrow funds for up to seven days to meet their required reserves and facilitate settlements in the payment system, was used on four occasions in 1997 and only once during the first half of 1998. However, after the events in Russia unfolded and monetary conditions tightened, several banks have taken recourse to that facility, in spite of the high rates charged for using the window. The Lombard window was transformed into an overnight facility effective December 1, 1998 with a view to shorten banks' recourse to it. At the same date, a **last-resort credit facility** was reactivated which is to assist banks with temporary financial difficulties; one bank used that facility during December 1998.

65. Effective July 1, 1998, the NBKR abolished its **foreign exchange auctions** and moved its foreign exchange interventions and the determination of the official exchange rate to the **interbank market**, which benefitted from the introduction of a new electronic trading system.[19] With this change, a multiple currency practice was abolished. Notwithstanding the difficult external environment, the shift to the interbank market went smoothly and the new electronic trading system has proven capable of handling a sharply increased trading volume. While the NBKR has significantly reduced its provision of foreign exchange to commercial banks—from US$105 million in 1996 to US$47 million in 1997 and US$15 million during the first half of 1998, the pressure on the exchange rate in the wake of the Russia crisis has led to a resurge of such provisions (Table 31).

66. Activity in the **interbank market** has increased significantly during 1997 and 1998, especially since mid-1998 when banks were forced to manage their reserves more actively following the tightening of liquidity conditions by the NBKR and the shortening of the reserve holding period. In addition, the introduction of the electronic trading system for treasury bills facilitated dealings in the interbank market for those loans secured by repurchase contracts in treasury bills.[20] Monthly average transactions rose from som 26 million in 1997 to som 82 million during the first half of 1998 before surging to som 246 million from July onward. Most transactions have been for very short maturities of 7 days or less. Since the onset of the Russia crisis, interbank interest rates have varied widely depending on the counterpart and the

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[18]It appears that some banks have accepted these costs to benefit from the higher returns in foreign exchange market speculation.

[19]All transactions agreed outside the electronic trading system have to be reported to the NBKR and are entered into the system later on.

[20]Interbank credits are extended either as unsecured loans or against collateral, such as currency or repurchase contracts in Treasury bills.

type of security, reflecting signs of growing interbank market segmentation. Overall, interbank market rates have nearly doubled since May 1998 (Table 27).

D. Activity and Soundness of the Banking System

67. Following its restructuring under the World Bank FINSAC program,[21] the **Kyrgyz banking system** currently comprises 21 operational commercial banks, up from 17 at the beginning of 1997. A variety of new laws and regulations were adopted in 1997 and 1998 and have considerably strengthened the framework within which these banks operate, in particular the new Banking Law, the Collateral Law, the Bankruptcy Law, Part II of the Civil Code, and the new Chart of Accounts which became mandatory for all banks during 1997. In addition, **banking supervision** by the NBKR was strengthened and prudential regulations in line with international standards were adopted. These standards were tightened further when Kyrgyz banks were subjected to much tighter prudential ratios than is common internationally, in response to the Russia crisis and in light of the continued need to improve the quality of supervision. Overall, with financial intermediation having finally taken off since late 1997, a small core of well-established banks has emerged, and the Kyrgyz banking system has initially coped well with the adverse external environment caused by the Russia crisis. However, some signs of distress emerged toward the end of 1998.

68. All banks are established and operate in Bishkek and are currently maintaining a network of 140 branches in the different oblasts; 20 new branches were opened in 1998 alone. Nevertheless, the **banking density** remains low by international standards; one bank office serves about 28,000 people on average. Four major banks account for about two-thirds of all credits and deposits, with the fully privately-owned Mercury Bank being the largest with a share of about one-third of all credits and one-fifth of all deposits (Tables 28 and 29).

69. After the restructuring of the banking system, the strengthening of the legal and regulatory framework, and the gradual tightening of prudential regulations, Kyrgyz banks have had to adjust their management practices, capital, and accounting procedures, as well as their credit portfolios and classification.[22] While in early 1997 there were 3 banks that did not

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[21]For a description of the financial sector reform, see the 1997 Report on Recent Economic Developments (SM/97/274).

[22]The major prudential regulations before the recent tightening that became effective on October 1, 1998 were as follows: (a) the solvency ratio, with a required minimum capital of 8 percent of a bank's risk-weighted assets; (b) the minimum capital requirement, which depending on the ownership composition, is between som 15 million and som 30 million; (c) a limit on lending to an individual borrower of 25 percent of a bank's capital; (d) a limit on lending to a bank's owner or staff of 15 percent of capital; and (e) a set of ceilings on the foreign currency exposure, limiting open net short and long positions in individual currencies (15 percent of capital each) and on the aggregate of open short and long positions (30 percent

(continued...)

comply with the solvency ratio and 6 banks that did not meet the limit on lending to an individual borrower by mid-1998, all banks were in compliance with the prudential ratios. However, as a result of the Russian crisis, seven banks did not meet one or more of these ratios at end-1998. In addition, while the share of **loans classified** as "substandard", "doubtful", and "losses" had fallen to 3.6 percent by mid-1998, this share rose to 9.5 percent by end-September 1998 as a result of major loan reclassifications mandated by the supervisory authority to a bank temporarily placed under administration. During 1997, banks were subject to 16 penalties and 54 warnings and instructions; during the first nine months of 1998, only 1 penalty and 35 warnings and instructions were issued, but penalties and warnings resurged toward the end of the year. Most of the warnings and instructions were related to the limits on foreign exchange exposure, which are monitored on a daily basis. Overall, most Kyrgyz banks have adapted their management systems and procedures and trained their staff in credit appraisal and risk management, inter alia through technical assistance such as provided to the four banks that participated in the EBRD credit line program for small and medium-sized enterprises.

70. It can be expected that the Russia crisis will continue to impair the **soundness of the Kyrgyz banking system**, as loan repayment difficulties by some borrowers, especially for U.S. dollar-denominated loans, are likely to materialize over the next few months. This will require a reclassification of loans and a possible need for additional capital injections by owners which may need to be accelerated in view of the recently announced tightening of some prudential ratios. Direct financial losses resulting from the freezing of correspondent accounts in Russia and the investment in Russian securities have been marginal (som 9 million).

V. EXTERNAL SECTOR

A. Current Account Developments in 1997 and the First Three Quarters of 1998

71. The conditions in the external sector of the Kyrgyz Republic improved substantially in 1997, mainly thanks to the start of gold exports originating from the Kumtor gold mine. Nevertheless, the improvement seems to have been short lived, as the weakness of traditional export markets and adverse weather conditions affecting the export of electricity have reversed part of the improvement in the first three quarters of 1998. More generally, the latest developments point to the continued fragility of the balance of payments and the need for

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[22](...continued)
of capital each). Effective October 1, 1998, the NBKR lowered the ceilings on permissible lending to an individual borrower (to 20 percent) and to insiders (to 10 percent), as well as on open positions in foreign exchange (to 10 percent per currency and 15 percent for all currencies); the latter now also captures off-balance sheet items. Effective January 1, 1999, the minimum solvency requirement was raised to 12 percent, and the minimum capital to som 25–40 million, depending on the ownership composition.

further macroeconomic and structural adjustments to reduce the current account deficit and reach external viability.

72. The **current account** deficit fell sharply in 1997 to US$139 million (7.9 percent of GDP) compared to US$425 million in 1996 (23.2 percent of GDP) (Table 33). This adjustment reflected significant gains in export receipts, a reduction in investment–related imports for the establishment of the Kumtor gold mine, and reduced imports of consumption goods. Nevertheless, in the first three quarters of 1998 a substantial slowdown in electricity exports to neighboring countries, coupled with a continued decline in traditional export markets and buoyant import demand for fuel and consumption goods, substantially widened the current account deficit to US$229 million (17.3 percent of GDP for the first nine months of the year).

73. **Export receipts** grew by 19 percent in 1997, boosted mainly by the start of **gold exports** from the Kumtor mine amounting to US$184 million. Excluding gold exports, exports receipts actually declined by 15 percent which mirrors an underlying weakness in export demand for traditional exports in the light manufacturing and the food processing sectors (Table 34). Moreover, exports of agricultural products fell by 30 percent, reflecting stock–building by domestic producers (see Section II.A).

74. The 1997 surge in exports was partially reversed in the first three quarters of 1998, when export receipts fell by US$51 million, an 11 percent decline, reflecting a substantial fall of US$5 million in **electricity exports** to Kazakhstan and Uzbekistan[23] and a continued decline of US$30 million in the demand for traditional export markets. Against this trend, exports of agricultural products rose by 18 percent and exports of machinery grew by 19 percent.

75. The start of gold exports has implied a **reorientation in the direction of exports** in favor of non–CIS countries (Tables 38 and 41). In 1997 the share of exports to non–CIS countries rose to 47 percent, compared with 34 percent in 1994 (Table 39 and Figure 7). Exports to other CIS countries continued their historical decline: in 1997 alone they fell by about 20 percent, mainly on account of a decline in export receipts of traditional export products (Table 36) from Russia, Kazakhstan, and Uzbekistan.

76. The drop in traditional Kyrgyz exports does not seem to be related to **export competitiveness**. As shown in Figure 8, the real effective exchange rate has remained roughly constant during the last two years until late-1998, where it depreciated sharply. Moreover, Table 49 shows that Kyrgyz average monthly wages in U.S. dollar terms have remained well below the average of BRO countries, and in the second quarter of 1998 they were the fourth lowest in the group. The export decline must therefore be associated with structural issues

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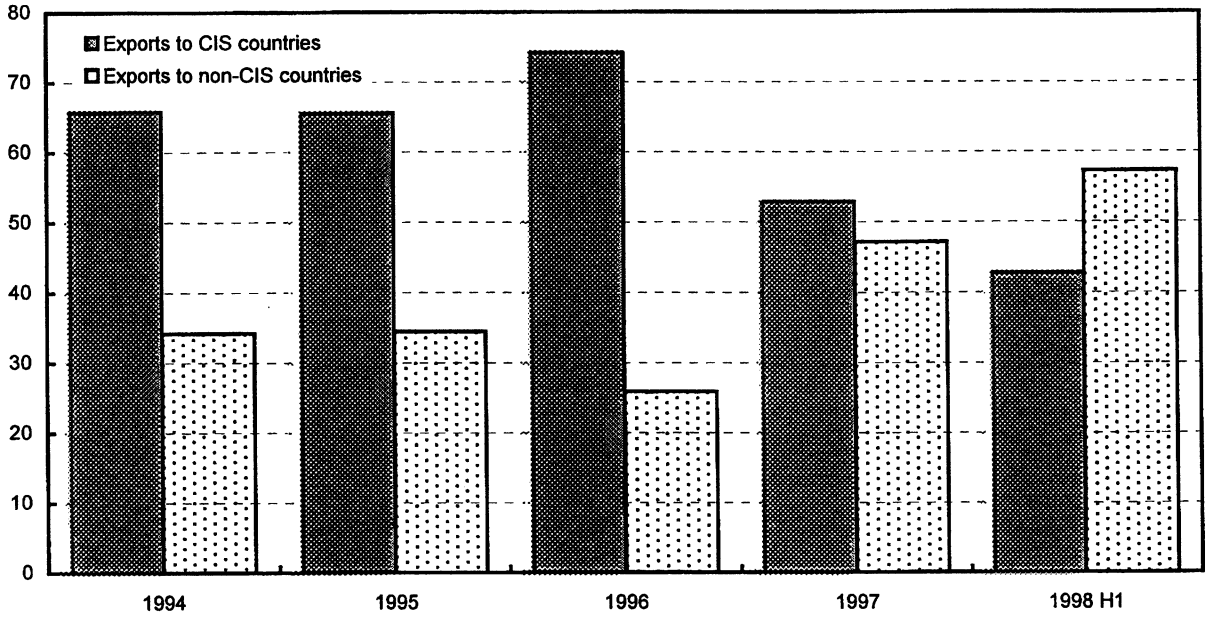
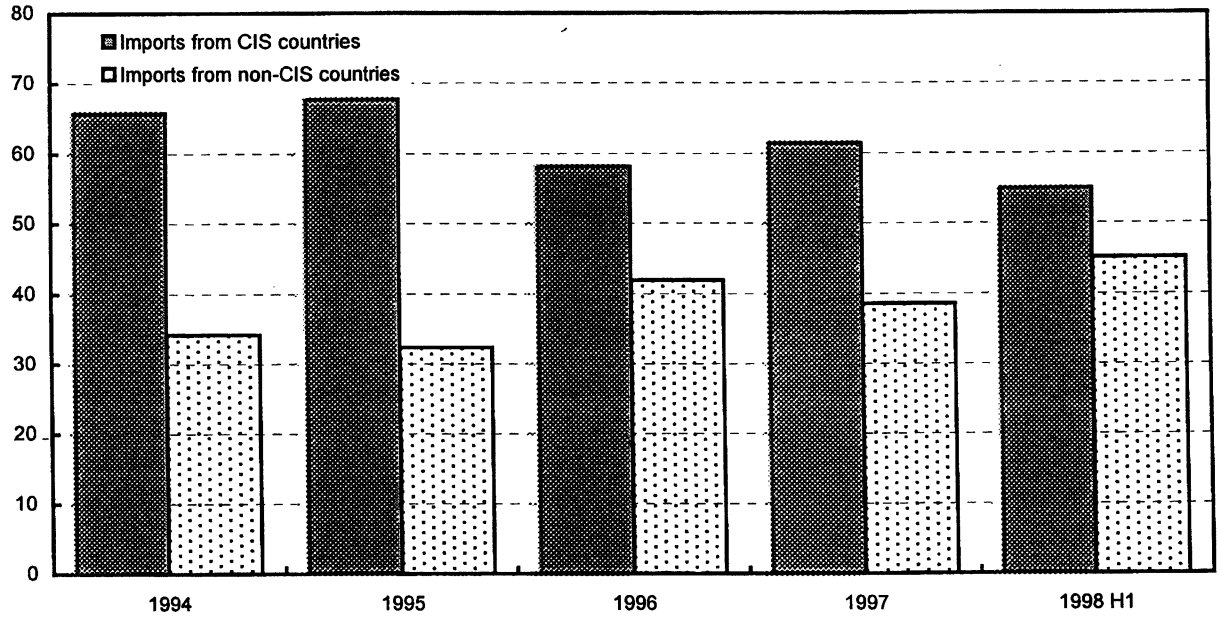
[23]The shortfall in electricity exports was due to unusually heavy rains in the region which made neighboring countries self-sufficient in terms of electricity and water for agricultural production for the first half of the year (see Section II.B).

Figure 7. Kyrgyz Republic: Direction of Trade, 1994-98
(In percent of total)

Exports

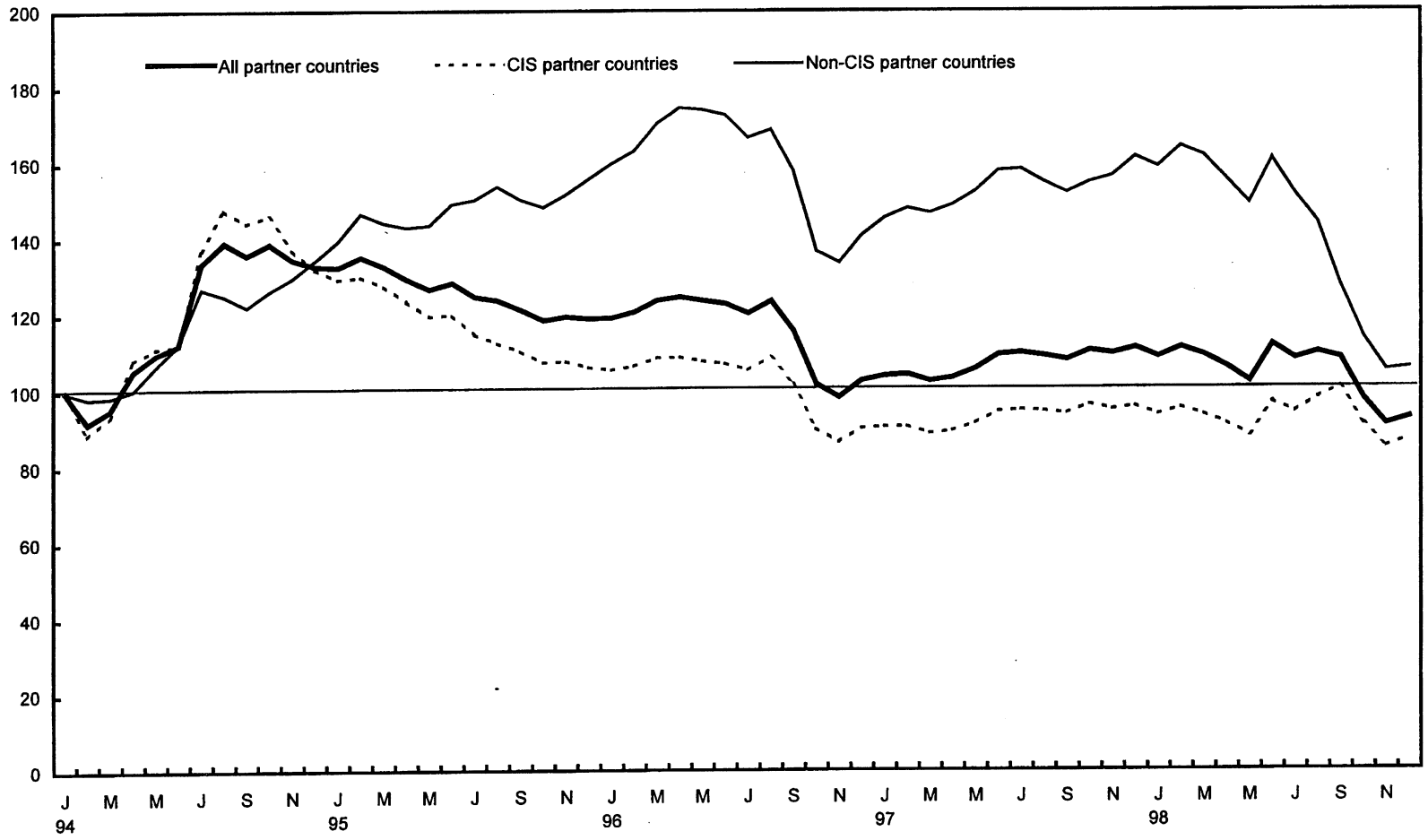


Imports



Sources: Kyrgyz authorities; and Fund staff estimates.

Figure 8. Kyrgyz Republic: Real Effective Exchange Rate, 1994-98 1/
(Jan. 1994 = 100)



Sources: Kyrgyz authorities; and Fund staff estimates.
1/ An increase corresponds to an appreciation.

relating to the quality of exports and the continued adjustment of the transition process, in particular the breakup of the former vertical production and distribution linkages that had been established in the Soviet period.

77. **Import payments** on a c.i.f. basis fell by 13 percent in 1997 to US$710 million, as the demand for capital imports associated with the construction of the Kumtor gold mine slowed down (Table 35). In particular, imports of machinery fell by 33 percent to US$154 million. This decline was partly offset by higher imports of consumption products: light manufacturing imports, in particular, rose by US$32 million and accounted for 6.8 percent of total imports compared with 2 percent in 1996.

78. In the first three quarters of 1998 import payments rose strongly (US$111 million, a 23 percent increase against the same period in 1997). This large increase reflects buoyant **demand for consumption goods**, in particular processed food and light manufacturing products,[24] together with unusually high imports for petroleum derivatives. In addition, increases were also registered in the imports of non–ferrous metallurgy (84 percent), machinery (22 percent), lumber and paper (30 percent), and construction materials (42 percent).

Table 1. Kyrgyz Republic: Trade through the Free Economic Zones, 1996–98
(In millions of U.S. dollars)

	1996	1997	1998
			Q1–Q3
Trade deficit	**-3.2**	**-10.9**	**-33.1**
Exports (fob)	9.1	15.3	9.1
Imports (cif)	12.3	26.2	42.2

Source: National Statistical Committee of the Kyrgyz Republic.

79. Part of the rise in imports over the last two years can be associated with the activity of the **FEZs** in the Kyrgyz Republic. Table 1, which presents trade activity through the FEZs from 1996 to the first nine months of 1998, shows a rapidly growing trade deficit. This is a clear indication that the FEZs, rather than promoting re–export activity in the Kyrgyz Republic, are used for channeling an ever–larger amount of imports into the country in order to avoid customs and excise duties. The authorities are aware of this problem and have recently taken actions to close three of the FEZ and outlaw any trade activity in the remaining ones.

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[24]It is worth noting that this increase in food processing and light manufacturing products runs parallel to the decline in the demand for Kyrgyz exports from the same sectors, indicating a substitution effect away from lower-quality Kyrgyz products in the domestic market as well.

80. The increasing demand for imports of consumption goods has not significantly affected the **origin of imported goods** (Tables 38 and 41): in 1997, 61 percent of all imports came from other CIS countries compared to 66 percent in 1994 (Figure 6). Major CIS imports were oil and gas, machinery and chemicals (Table 37). The largest imports from non–CIS countries related to the machinery sector, chemicals, food processing, and light manufacturing (Table 40). In the first nine months of 1998, the share of CIS imports fell to 51 percent but this lower figure reflects, inter alia, seasonal patterns of energy imports from other CIS countries which usually take place in the fourth quarter of the year. The Kyrgyz Republic has consistently maintained a **trade deficit with other CIS countries** since 1995 (Table 38). In particular, an increasing trade deficit has developed with Russia and an energy deficit towards Uzbekistan and Kazakhstan (Table 42).

81. The **deficit on factor and non–factor services** improved by US$65 million in 1997, reflecting the lower trade deficit and a reduction in foreign services related to the construction of the Kumtor gold mine (Table 33). The deficit in transportation services declined by 26 percent to US$71 million. Foreign technical assistance also fell to US$23 million. The service balance related to Kumtor includes receipts from gold price hedging operations worth US$18 million earned by the mining company.

82. In the first three quarters of 1998 the **services deficit** deteriorated by US$9 million. An increase in resident transportation services limited the deficit in this sector to US$51 million. Travel receipts also improved and exceeded payments by US$3 million, while the deficit on Kumtor–related services improved to about US$16 million on account of higher income from gold price hedging operations of US$27 million. This improvement, though, was offset by higher net interest and other service payments.

83. Foreign **interest payments** have been rising rapidly since 1994, in light of the rapid accumulation of external debt (Table 43). In 1997 net public and private foreign interest payments amounted to US$57 million. Of these, public payments to multilateral institutions amounted to US$6 million—including US$3 million to the IMF and US$2 million to the World Bank—while public payments to bilateral institutions accounted for US$15 million. Private sector payments, mostly related to Kumtor, increased to US$34 million. In the first nine months of 1998, total **interest payments** amounted to US$52 million.

84. **Net transfers** declined sharply in 1997 to US$68 million. Of these, US$65 million originated from official sources in the form of grants to the Kyrgyz Republic. These grants were targeted at humanitarian assistance (US$29 million), technical assistance (US$22 million), and other support (US$14 million). Major donors included the United States (US$40 million), the European Union (US$13 million), Japan (US$8 million), and Germany (US$2 million). Private transfers, mostly in the form of remittances, accounted for a net inflow of US$2 million. In the first three quarters of 1998, net transfers amounted to US$39 million, of which US$45 million reflected official grants.

B. Capital Account Developments

85. The **capital account** surplus was reduced by about US$90 million in 1997, reflecting the end of disbursements of loans associated with the development of the Kumtor project. However, direct foreign investment picked up sharply, amortization payments were lower—due to the rescheduling of the Russia debt—and commercial banks net foreign assets were little changed.

86. In the first nine months of 1998, the **capital account** surplus declined further by US$25 million to US$154 million compared to the same period in 1997, reflecting lower direct foreign investments and official disbursements. Commercial banks also reduced their net foreign assets, reflecting their increased borrowing activity in the CIS interbank market (see Section IV.A).

87. **Direct foreign investment** rose by 80 percent to US$83 million in 1997, reflecting larger inflows mostly originating from non–CIS countries (Table 46). The larger inflows originated from Canada (US$31 million), related to the Kumtor project, the European Union (US$18 million), Turkey (US$16 million), and the United States (US$6 million). In the first half of 1998, net inflows fell to US$37 million, reflecting the completion of the Kumtor project, a slowdown of the privatization program (see Section II.E) as well as uncertainty amongst investors about regional economic conditions.

88. Table 48 provides a **comparison of the ratio of direct foreign investment to GDP** across a selected group of BRO countries. As shown in the table, the Kyrgyz Republic enjoyed an average share of direct foreign investment among BRO countries in 1997. While the ratio in the Kyrgyz Republic is higher than other economies still undergoing stabilization (Georgia, Russia, Ukraine, and Uzbekistan), it is lower than the average in the Baltic republics, suggesting that there may be a need to further liberalize regulations and improve the climate for direct foreign investment. The Kyrgyz ratio is also much lower than that of countries rich in natural resources, namely Azerbaijan and Kazakhstan.

89. In 1997, net **lending of medium– and long–term loans** fell to US$152 million, as disbursements relating to the Kumtor project (US$195 million in 1996) were completed. Gross disbursements amounted to US$167 million, of which US$155 million originated from non–CIS countries. Multilateral disbursements, excluding the IMF, totaled US$136 million mostly on highly concessional terms, including US$62 million from the World Bank (International Development Association (IDA)), and US$52 million from the concessional window of the Asian Development Bank. Bilateral disbursements accounted for US$31 million, of which US$23 million originated from CIS countries. Bilateral disbursements on concessional terms came from Japan (US$4 million), Denmark (US$2 million), and Germany (US$1 million).

90. **Amortization payments** in 1997, excluding the IMF, amounted to US$15 million, substantially less than in 1996, following the successful restructuring of the debt owed to

Russia. Of the total, US$10 million were paid to bilateral creditors—including US$4 million to CIS countries—and no amortization payments were due to other multilaterals. The IMF was repaid US$10 million. An additional US$5 million was paid in private sector amortization payments.

91. In the first nine months of 1998, net medium- and long-term loans rose to US$98 million. **Gross disbursements** amounted to US$114 million, of which US$100 million originated from non–CIS countries. Multilateral disbursements of US$74 million comprised US$43 million from the World Bank, US$29 million from the Asian Development Bank, and US$3 million from the EBRD. Bilateral disbursements accounted for US$26 million, of which US$13 million originated from other CIS countries.

92. During the same period, US$16 million of **amortization payments** were recorded (excluding payments to the IMF which totaled US$10 million). Payments to bilateral institutions accounted for US$14.6 million and private sector payments were about US$1.4 million. Again, no amortization payments were due to other multilateral institutions.

93. The statistical coverage of **short–term capital movements**, mostly related to trade financing, is limited in the Kyrgyz Republic. In this respect, it is reflected as part of **errors and omissions** in Table 33. In 1997, unidentified outflows amounted to US$74 million, compared to a positive inflow of US$56 million in 1996. In the first three quarters of 1998, unidentified inflows accounted for US$53 million. Beyond short–term capital movements, unidentified flows are likely to comprise private sector activity in the form of unrecorded trade flows, private remittances, and private capital transfers.

94. The **overall balance of payments** was in surplus by US$46 million in 1997. This allowed the NBKR to accumulate US$83 million in gross official reserves, thus achieving a stock of **gross reserves** of US$200 million (equivalent to three months of imports of goods and nonfactor services). Of this accumulation, IMF net disbursements under the first ESAF arrangement amounted to US$35 million. Exceptional financing totaled US$3 million, of which US$1.7 million consisted of repayments of outstanding arrears to CIS commercial banks by the Kyrgyz private sector and US$4.4 million represented a rescheduling of interest payments to Russia.

95. In the first nine months of 1998, this improvement was partially reversed as the overall balance fell to a deficit of US$22 million. In order to meet the associated financing, the NBKR reduced its **gross reserves** by US$15 million. Exceptional financing was lower by US$2 million, of which US$1.3 million is accounted for by repayments of outstanding arrears to commercial banks by the Kyrgyz private sector and US$3.3 million represents the rescheduling of a principal payment due to Pakistan in February 1998.

C. Trade Policy

96. The Kyrgyz authorities have made considerable progress in liberalizing their trade regime since independence. These efforts have culminated with the successful accession to the World Trade Organization (WTO) in October 1998, and—together with Latvia—the

Kyrgyz Republic is the first BRO country to achieve such an endorsement of its trade policy by the international community.

97. **Tariff rates** are limited to a flat 10 percent tariff on all imported goods.[25] Moreover, goods originating from developing countries enjoy a 50 percent reduction in tariff duties, whilst goods originating from least developed countries are free of duty. According to available information, the abuse of these special privileges has been minimal. There are no additional duties or charges levied in addition to customs duties, and the fees for customs services are in line with cost recovery. On the basis of this tariff structure, the average trade–weighted tariff rate was 9.9 percent in 1997.

98. As part of the measures to **accede to the WTO**, the Kyrgyz authorities have brought excise and VAT taxation in line with international standards over the last two years. In particular, excise taxation is now non-discriminatory between domestic and foreign products following passage by parliament in September 1998 of the new Regulations on the Harmonization of Excise Tax Rates. The authorities have also signed bilateral agreements to move to the destination principle of VAT taxation with other CIS countries, with the exception of Russia where an agreement is expected to be signed shortly.

99. **Quantitative import restrictions** in the Kyrgyz Republic are limited to safety and health provisions, including military arms and goods, explosives, nuclear materials, poisons, narcotics, and psychotropic substances. Following changes to the law in June and October 1998 respectively, the granting of import licenses and a new antidumping law are now in full conformity with WTO requirements.

100. On the export side, there are no duties currently in place, and **export restrictions** are limited to the Agreement with the European Community on Textiles. Export licensing is limited to goods that may endanger public health, consumer welfare, the environment, the artistic and cultural heritage, and national security. Licensing is also required for the exports of non–ferrous metals and waste or scrap thereof in order to limit the extent of theft of these goods.[26] Export subsidies are limited to tax incentives for foreign direct investment and to special leasing agreements in the free economic zones.

101. Quality and **safety standards** in the Kyrgyz Republic are being brought into conformity with international standards. In particular, in January 1997 the authorities established an information center of the State Inspectorate on Standardization and Metrology (Kyrgyzstandard), which meets WTO requirements, and the parliament passed legislation in June 1998 that is meant to conform to the WTO Agreement on Technical Barriers to Trade and the Sanitary and Phytosanitary Standards. In March and June 1998 respectively, legislation was also passed to meet the requirements of the Trade Related Intellectual

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[25]All exemptions to the tariff duties were repealed in September 1998 and new exemptions need to be approved by the Kyrgyz parliament.

[26]These export licenses are not meant to control the price or quantity of exported non–ferrous metal but to ensure that the goods are exported by the legitimate owner.

Property Regime (TRIPS) and the Agreement on Trade Related Investment Measures (TRIMs).

102. The accession to the WTO does not preclude the Kyrgyz Republic from adhering to the CIS Free Trade Area Agreement and to the **Customs Union** with Russia, Belarus and Kazakhstan, as long as these agreements remain in conformity with the WTO rules on Regional Trade Agreements and the tariff concessions negotiated at the time of accession. The authorities are currently studying the procedures to harmonize the country's customs and trade legislation with those of the other CIS countries and no agreement has yet been reached on the common custom duties.

103. The methodology to classify the overall **trade restrictiveness** currently used by IMF staff is described in Box 1. The average unweighted import tariff of the Kyrgyz Republic is 10 percent and there are no additional duties or charges. The Kyrgyz trade regime can therefore be classified as "relatively open" on the vertical axis of the table in Box 1.

104. As regards non–tariff barriers, these are limited to internationally–accepted quantitative import restrictions for health and safety provisions as discussed above. In view of the fact also that safety, quality, sanitary and phytosanitary standards are now consistent with WTO standards and they do not constitute technical impediments to trade, non–tariff barriers are virtually non–existent in the Kyrgyz trade regime and they affect less than 1 percent of overall trade. On the horizontal axis of the table in Box 1, the trade regime can therefore be classified as "open".

105. Overall, this implies that the Kyrgyz trade regimes scores a value of 2 on a scale of 1 to 10 in the index of overall restrictiveness, which compares well with industrial countries and other transition economies. The very uniform structure of import tariffs and the lack of tariff exemptions in the Kyrgyz Republic make for a highly transparent system of import duties.

D. External Debt

106. External public debt[27] continued to increase rapidly in 1997 and the first half of 1998, reflecting the need of the Kyrgyz Republic for external resources from the international community to finance large, albeit declining, fiscal deficits and the public investment program. Most of the newly contracted debt was on highly concessional terms from multilateral and bilateral institutions. Nevertheless, by the first half of 1998, the external debt stock has reached relatively high levels compared to other transition economies, calling into question the sustainability of the external position.

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[27]The database on external public debt has not yet been fully harmonized between the Ministry of Finance and the NBKR. For this reason, there are still discrepancies between the external debt stocks and flows.

Box 1. Classification Scheme for Overall Trade Restrictiveness

The IMF has adopted a new system for the classification of the overall trade restrictiveness of a country. The new system is based on two dimensions: a) the unweighted average applied nondiscriminatory (MFN) tariff rate; and b) the extent that non–tariff barriers affect trade or production in the economy. Based on these two dimensions, an index number from 1 to 10 is then determined for each level of restrictiveness, with 1 being the lowest and 10 the highest level of restrictiveness. The index is summarized in the table below.

Classification Scheme for Overall Trade Restrictiveness

	Non–tariff Barriers		
	Open	Moderate	Restrictive
Tariffs			
Open	1	4	7
Relatively open	2	5	8
Moderate	3	6	9
Relative restrictive	4	7	10
Restrictive	5	8	10

The tariff system is classified as *open* if the unweighted average statutory rate is between 0 percent and 10 percent, *relatively open* if the rate is between 10 and 15 percent, *moderate* if the rate is between 15 percent and 20 percent, *relatively restrictive* if the rate is between 20 and 25 percent, and *restrictive* if the rate is above 25 percent. The system of non–tariff barriers (NTBs) is classified as *open* if NTBs are either absent or affect less than 1 percent of trade or production in the economy, *moderate* if the NTBs cover at least one important sector in the economy (e.g. agriculture or textiles) or affect between 1 and 25 percent of overall trade or production, and *restrictive* if the NTBs affect entire stages of production (e.g. consumer goods) or account for more than 25 percent of overall trade or production.

107. The end–period stock of external debt in 1997 increased by US$224 million to US$957 million (54 percent of GDP). A large portion of this increase was associated with concessional multilateral disbursements from the World Bank, the Asian Development Bank, and the IMF. Bilateral donors also contributed to the increase, albeit by a smaller amount. In the first half of 1998, the debt stock continued to rise in a similar fashion and at end–June the stock of external debt stood at about US$1 billion.

108. At the end of 1997, roughly US$600 million of the outstanding stock of external debt was owed to multilateral institutions, mostly on a highly concessional basis. Roughly one sixth of the multilateral debt was on a nonconcessional basis, representing purchases under the IMF stand–by arrangement and the systemic transformation facility in 1993–94, and loans from the European Bank for Reconstruction and Development. At the same time, the bilateral debt stock stood at US$358 million, equally shared between debt owed to CIS and non–CIS countries. Of the CIS debt, debt owed to the Russian Federation constitutes the largest share (75 percent). The non–CIS debt includes obligations to Japan (US$100 million), Turkey (US$45 million) and Germany (US$20 million).

109. The Kyrgyz authorities continued to service their debt obligations regularly in 1997 and the first half of 1998. Debt service payments amounted to US$41 million in 1997, equivalent to about 6 percent of exports of goods and non-factor services. The average implicit interest rate[28] on the outstanding debt stock has been declining from 4.2 percent in 1994 to about 2 percent in 1997, reflecting the increasing reliance on highly concessional external resources. Amortization payments have also declined substantially in 1997, following the successful rescheduling of external debt with the Russian Federation.

110. The size of the external debt stock is less worrisome once the grant element associated with it is taken into consideration. In fact, in net present value terms, the stock of external debt in 1997 is equivalent to about US$720 million (41 percent of GDP) compared to US$957 million (54 percent of GDP) in nominal terms. The grant element of the total debt stock is therefore an average of 25 percent, reflecting the highly concessional nature of most multilateral and bilateral disbursements from non–CIS countries. This suggests that, in spite of the pressures from the fiscal side for external financing, the authorities have managed the contracting of external debt relatively well by relying on concessional financing. However, as a result of the reliance on foreign financing of the budget, the budget has become sensitive to exchange rate movements. Accordingly, the depreciation of the som has in itself increased the debt stock in som terms by almost 70 percent during 1998. In light of these developments, external debt management has improved and cooperation between the NBKR and the MoF has been intensified.

[28]Calculated as the actual interest payments relative to the average debt stock.

Currency Substitution in the Kyrgyz Republic

by Joannes Mongardini and Johannes Mueller

I. Introduction and Summary of Findings

1. This appendix analyzes the currency substitution (CS) process in the Kyrgyz Republic during the period May 1993-October 1998, covering the timespan between the introduction of the national currency, the som, and the first three months after the Russia crisis hit the Kyrgyz economy in mid-1998. During that period, the share of foreign currency deposits as a share of total deposits rose from about 12 percent to 45 percent (Figure 1). The ratio had reached its maximum of about 46 percent already in February 1997 and has since hovered at around 40 percent, with some seasonal variation.

2. It thus appears that the use of foreign currency may have become persistent in the Kyrgyz Republic, since the factors that are typically conducive to a decline in the CS ratio—macroeconomic stabilization, stability of the exchange rate, and a relatively calm political situation—have been at work throughout 1997 and most of 1998 (until the onset of the Russia crisis) without yet significantly affecting the ratio. This seems to be consistent with evidence from Latin American and other countries where these factors have led to a reduction in the CS ratio only after long lags. While CS per se, even if it is persistent, may have beneficial effects on an economy and may not need to be discouraged,[1] it is nevertheless important to understand its determinants in order to be able to appropriately design monetary policy.

3. Against this background, this appendix identifies the determinants that have driven the CS process in the Kyrgyz Republic during the last five years, including such factors that have traditionally been used in CS studies, i.e., the interest rate differential and the expected depreciation rate. However, based on Mueller (1994), the econometric analysis goes beyond the conventional CS literature by explicitly addressing the persistence in the use of foreign currency. This hysteresis is modeled through the inclusion of a ratchet variable, which implies an asymmetric substitution process between domestic and foreign currency.

4. The presence of hysteresis implies a dichotomy in the traditional definition of the CS process. Accordingly, "currency substitution" is defined to exist within an economy when the substitution process can be considered symmetrical and reversible, as the driving forces behind the substitution process can to the same extent induce an increase or a decrease in the use of foreign currency.[2] On the other hand, an economy is defined as "dollarized", when an

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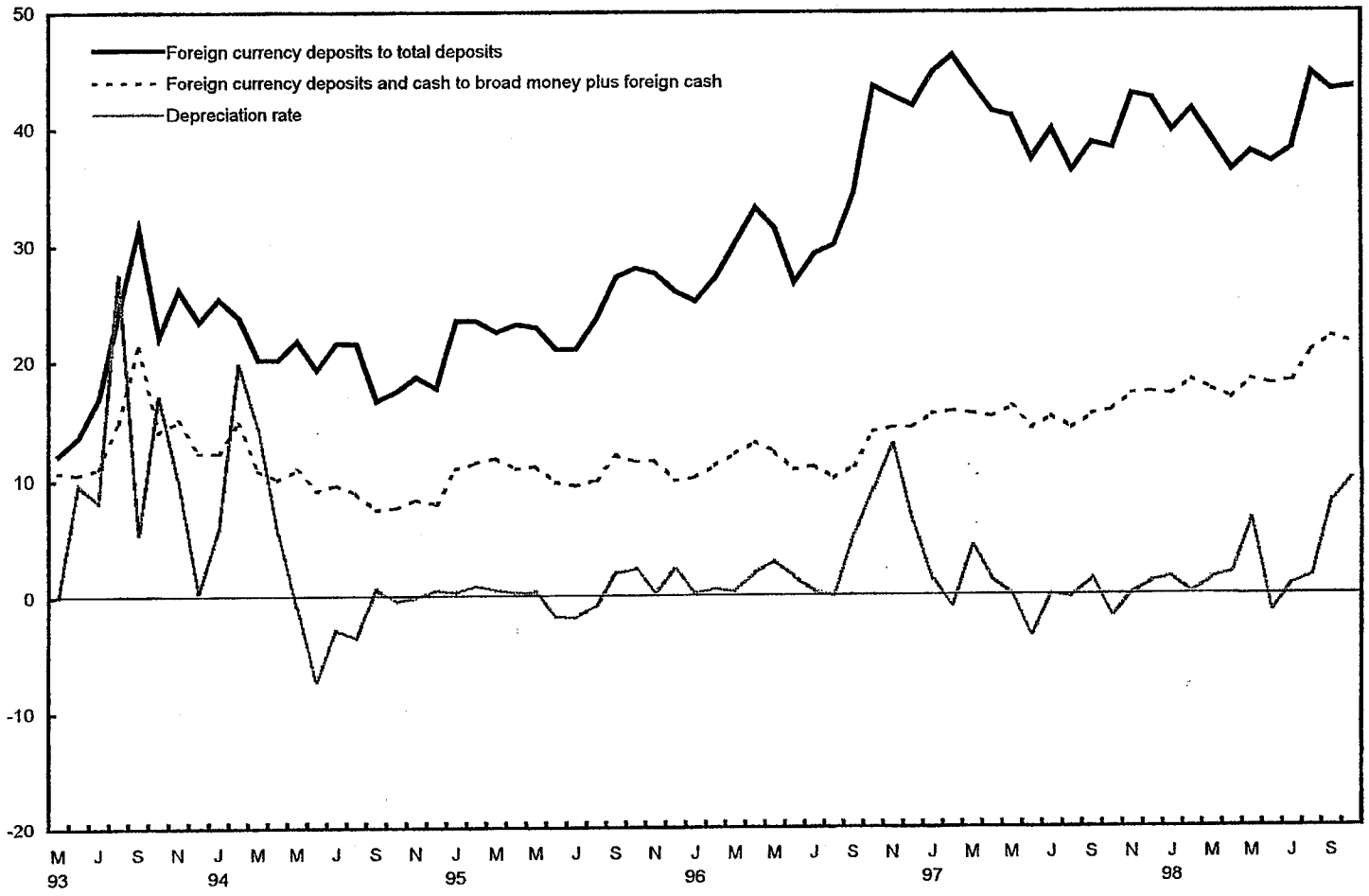
[1]See International Monetary Fund (1997).

[2]This concept is also behind much of the work on CS in industrial countries. See, for example, (continued...)

Figure 1. Kyrgyz Republic: Measures of Dollarization, 1993-98
(In percent)



Sources: Kyrgyz authorities; and Fund staff estimates.

asymmetric reaction of the use of foreign currency to changes in the determinants is observed.[3]

5. A second feature of this appendix is that it experiments with a second, more comprehensive CS definition, by including the estimated amount of dollar banknotes circulating in the Kyrgyz Republic in the econometric analysis, based on a recent survey undertaken by the National Bank of the Kyrgyz Republic (NBKR). Including foreign currency-denominated cash, the CS ratio rises from just above 10 percent in May 1993 to slightly above 20 percent in October 1998, exhibiting a continuous, albeit less pronounced, upward trend and less seasonal variation than the deposit-based CS ratio (Figure 1). The figure implies that the public appears to be more willing to hold foreign currency in bank accounts than in cash.

6. The econometric results indicate that the interest rate differential and the depreciation of the exchange rate are significant CS determinants in the Kyrgyz economy. Moreover, confirming the anecdotal evidence of Figure 1, while there may be a ratchet effect in the allocation of deposits, such an effect cannot be detected in the broader CS definition including foreign currency cash. This implies that the economy as a whole has not yet reached a level of dollarization that would make the CS process asymmetric and difficult to reverse. In this respect, policy measures may still have a strong impact on the portfolio decisions of the private sector. However, given the significance of the ratchet variable for the deposit-only CS ratio, particularly strong policies need to be pursued over an extended period of time so as to convince the more sophisticated investors to switch back to som-denominated assets.

II. Measuring the Degree of Currency Substitution

7. This appendix uses two different definitions to measure the degree of currency substitution in the Kyrgyz economy. The first measure (*CS1*), which is widely used in the empirical CS literature, is defined as the ratio of foreign currency deposits to total deposits in the Kyrgyz banking system and is derived from the monetary survey.

8. Foreign currency denominated bills and coins circulating within an economy are generally omitted in the CS ratios of most studies. This is mainly due to the fact that the stock of foreign cash in circulation within a particular country is difficult to capture and can only be

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[2](...continued)
Lane and Poloz (1992).

[3]The terms "currency substitution" and "dollarization" are often used synonymously, given the dollar's leading role among the replacing currencies. Some authors regard CS as the last stage of the dollarization process. They argue that as long as dollars are used only as store of value and unit of account, but not as medium of exchange, the economy is dollarized; CS occurs when the dollar is also used as the major medium of exchange (see Calvo and Végh (1992)).

roughly approximated based on generally very restrictive assumptions.[4] While this caveat also applies to this study, the relatively low extent of financial intermediation in transition economies such as the Kyrgyz Republic warrants at least an attempt to capture the cash economy and compare the econometric results of this measure with the more traditional approach found in other CS studies.

9. Against this background, the second definition (*CS2*) used in this appendix to measure the degree of currency substitution represents the ratio of foreign currency deposits plus the holdings of foreign currency in cash to broad money plus foreign currency cash. The foreign cash component of this measure was inferred from combining the stock of foreign exchange estimated in a recent survey undertaken by the NBKR among foreign exchange bureaus with daily data the NBKR has been collecting since January 1996 on the flows of foreign currency through these bureaus, which are the main source for foreign currency in cash in the Kyrgyz economy. Prior to January 1996, the data were interpolated by assuming that foreign cash holdings moved proportionately to foreign currency deposits. According to the NBKR survey, the stock of foreign cash circulating in the Kyrgyz Republic in July 1998 amounted to about 4 percent of som-denominated currency in circulation or about 16 percent of foreign-currency denominated deposits. Close to 90 percent of this cash was estimated to be in U.S. dollars, with the remainder being held in Russian ruble, Deutschmarks, and Kazakh tenge.

III. Evidence of Currency Substitution in BRO Countries[5]

10. While currency substitution and dollarization have traditionally been an issue in market economies with large fiscal deficits, high and variable inflation rates, recurrent devaluations, and severe political crises, they have also emerged in transition economies during the last few years.[6] The process began once these countries lifted their restrictions on foreign currency holdings as part of their efforts to liberalize their economies. In general, the use of foreign currency may also reflect a one-time stock adjustment, given the former Soviet Union's central allocation of all international trade through specialized institutions and the strict prohibition of foreign currency holdings by domestic residents. But apart from these factors, the rising use of foreign currency appears to mirror the attempts of economic agents to hedge against inflation or exchange rate depreciation during periods of large macroeconomic imbalances at the beginning of the respective country's reform and adjustment process. In this context, permitting foreign currency deposits may have also served as a vehicle to foster

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[4]See Savastano (1992 and 1996).

[5]Only anecdotal evidence is presented based on Figures 2 to 6 so as to put the developments in the Kyrgyz Republic into perspective, and the general statements made in this section thus warrant a more detailed, country-specific analysis under a different forum.

[6]For an overview on dollarization in transition economies, see Sahay and Végh (1995).

financial intermediation and financial deepening at a time when banking systems were still considered fragile, thereby laying the foundation for the expansion of commercial banks' operations. Initially, the store-of-value motive dominated the substitution process, with the role of foreign currency for transaction purposes gaining more importance the longer the use of foreign currency persisted at increasingly high levels.

11. Depending on the extent and speed with which restrictions on foreign currency holdings were lifted, the CS ratios in the BRO countries rose rapidly, from virtually nil at independence to an unweighted average CS ratio of about 35 percent for all BRO countries at end-1995. However, as shown in Figures 2 to 4, by end-1995, the extent of CS ranged from below 25 percent in Estonia, Moldova, Uzbekistan, and Turkmenistan to 50 percent or above in Armenia, Azerbaijan, Latvia and Georgia. While seven countries experienced a further increase in their CS ratio by mid-1998—with substantial increases recorded for Armenia, Azerbaijan, Georgia, and Turkmenistan—the CS ratio declined in six other CIS countries, albeit in general only marginally, except for Belarus, Kazakhstan, and Ukraine. Overall, the unweighted average CS ratio of the sample countries rose to about 40 percent by mid-1998.

12. The ways in which countries induced a reduction in their respective CS ratio varied considerably. Some countries resorted to tighter restrictions on foreign exchange holdings, such as Belarus and Ukraine. The latter, for example, introduced a multiple exchange rate regime and tightened the surrender requirements in 1993. Other countries reaped the first fruits from their adjustment and reform programs, in particular Kazakhstan and Lithuania. These countries rapidly introduced a currency reform and pursued tight fiscal and monetary policies, in the case of Lithuania anchored by a currency board, which led to a rapid deceleration of the inflation rate. While macroeconomic stabilization took hold in almost all of the BRO countries sooner or later, with a decline in inflation and a slowdown in the depreciation of the exchange rate, Figures 2 to 4 suggest that CS ratios, even if they have been declining, have remained at relatively high levels throughout. It thus appears that in line with evidence in Latin American and other countries, there may not have been enough time for macroeconomic stabilization to induce a decline in the CS ratio. While these developments suggest that there may be a ratchet effect in BRO countries, the process to restore growth and induce disinflation in those economies is still ongoing.

IV. Currency Substitution in the Kyrgyz Republic

13. After independence in 1991 and the issuance of its own currency in May 1993, the Kyrgyz Republic rapidly adopted a reform and adjustment strategy to transform the economy to a market system, thereby becoming one of the earliest and most active reformers in the BRO. Supported under various Fund programs, the government pursued generally tight financial policies, which over time helped reduce the annual end-of-period inflation rate to about 18 percent in 1998.

14. The government also implemented a broad structural reform program to create a market-friendly environment to promote the resumption of growth driven by the private sector

by, inter alia, freeing most prices, introducing a liberal trade regime, and eliminating most capital controls. Significant progress was also achieved in creating a two-tier banking system. A substantial restructuring of banks was undertaken in 1996, supported by the IDA Financial Sector Adjustment Credit (FINSAC), which initially shook the public's confidence in banks as the major former state banks were either closed or recapitalized, but eventually resulted in a rapidly expanding banking system, which has enjoyed increasing public trust. [7]

15. Notwithstanding the overall macroeconomic stabilization, periods of economic uncertainty and rising inflationary expectations have repeatedly re-emerged during the last five years, extending pressure on the exchange rate and inducing a further increase in the CS-ratio. For example, the relaxation of fiscal and monetary policies in late 1995 to finance higher government expenditures in the run-up to the presidential election or the lack of sterilization by the NBKR of the use of counterpart funds by the government at end-1996 led to dramatic increases in the inflation rate and a sharp depreciation of the exchange rate, and, ultimately, to a noticeable rise of the CS ratio (Figure 1).

16. With the exchange rate stabilizing during 1997 and much of 1998 (before the Russia crisis), financial intermediation finally took off. Nevertheless, given that especially the sophisticated investors (enterprises and well-off households) had gotten used to using foreign currency as a store of value and, at least to some extent, a medium of exchange, the respective shares of dollar deposits in total deposits and of dollar credits to total credits have remained virtually unchanged, in spite of a near doubling of both deposits and credits during the period (Tables 28 and 29). Banks' demand for dollar-denominated deposits appears to have varied in line with their changing needs to keep their foreign exchange exposure in check at any given point in time, leading to highly volatile interest rate spreads for som- and dollar-denominated deposits over time (Table 25). Hence, in their effort to attract dollar-denominated deposits, the interest rate differential may at times not have been sufficiently high to compensate som depositors for the expected depreciation of the domestic currency and the risk premium that inevitably is associated with it, thereby containing the decline in the CS-ratio.

V. THE RATCHET EFFECT

17. In economic models that include a ratchet effect, it is assumed that the dependent variable reacts asymmetrically to changes of one of the key explanatory variables, depending on whether the latter one is rising or falling. The ratchet effect in these models is usually accounted for through the inclusion of the past peak value of an independent variable, in addition to the current value of that variable, or of the past peak value of the dependent variable.

18. In the context of monetary economics, the ratchet effect has been included in a variety of empirical studies on the demand for money in several countries, among them the United

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[7]For a description of the components of financial sector reform, see SM/97/274.

States as well as some high inflation countries. Although diverse in their specification and estimation method, these studies generally defined the ratchet variable as the largest previously achieved value of one of the independent variables over a given period, i.e., the past peak value of the interest rate, the inflation rate, or the depreciation rate.[8] Overall, the ratchet variable was found to be significant, and the respective equations showed lower standard errors and a better fit than the more traditional equations.

19. In all of these studies, the asymmetric reaction of money demand to changes in the respective independent variable was attributed to cost considerations of households; once the fixed costs of an investment in new money management techniques are borne, the new product or strategy remains in place and is not discarded even though interest rates, inflation rates, or depreciation rates decline again. In the case of high inflation countries, the ratchet effect was attributed to a costly process of developing, learning and applying strategies to "beat" inflation.[9] Such strategies, commonly labeled as financial innovations, include, inter alia, the rapid switching between demand and savings deposits in domestic currency, the evolution of high yielding or indexed money substitutes, the efficient use of overdrafts, the application of portfolio optimization methods, and, most notably, the flight into foreign currency assets. Over time, an increasing proportion of the public resorts to these forms of financial innovation. The large fixed costs involved in adopting these strategies as well as their wide-spread use and acceptance throughout the economy induce households and enterprises to expand their use of these substitute instruments even in the event of a decline in inflation or an appreciation of the exchange rate; agents become "locked in" the new pattern. If at all, only a significant decline in inflation or a considerable appreciation of the currency may overcome the sunk costs in "inflation-beating" strategies and provide enough incentives for households to eventually revert to traditional domestic money balances.

VI. ECONOMETRIC RESULTS

The Data

20. As stated above, two CS measures are analyzed: the first measure (*CS1*) is based on deposits only, while the second measure (*CS2*) incorporates foreign currency cash in the analysis. The other variables used in the regressions are: (a) the monthly depreciation of the Kyrgyz som against the U.S. dollar (*Exch*); (b) the interest differential (*Intdiff*) between the yield on three–month Kyrgyz GKO (treasury bills) and the yield on three–month U.S. treasury bills; and (c) a ratchet variable (*Ratcs1* and *Ratcs2*) calculated as the maximum level of the

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[8]See, for example, for the United States Enzler, Johnson and Paulus (1976), Quick and Paulus (1979), and Simpson and Porter (1980); and for high inflation countries Piterman (1988), Melnick (1989), Ahumada (1992) and Kamin and Ericsson (1993).

[9]See Dornbusch and Reynoso (1989), Dornbusch, Sturzenegger and Wolf (1990), Sturzenegger (1992), and Guidotti and Rodriguez (1992).

CS1 or CS2 ratios in the history of the sample. The variables *Exch* and *Intdiff* were derived from the International Finance Statistics (IFS) database of the IMF.

21. An additional ratchet variable was also considered, defined as the maximum monthly rate of depreciation of the som against the U.S. dollar; the regression results using this ratchet variable were nevertheless insignificant. Following Mueller (1994), the use of the CS ratchet can be justified on two grounds: first, it gradually reaches new peaks during the observation period and thus is relatively immune to outliers, thereby more accurately representing the theoretical justification behind the inclusion of the ratchet effect in the model structure (i.e., the process of developing, learning and slowly beginning to apply inflation-beating money management techniques); and second, it represents all the factors—not just the role played by the exchange rate—which in the past have influenced the CS process.

The Empirical Model

22. The CS model can be summarized by the following reduced form equation:

$$CSi_t=\alpha+\beta_1 CSi_{t-1-L}+\beta_2 Intdiff_{t-L}+\beta_3 Exch_{t-L}+\beta_4 Ratchet_t+u_t \quad (1)$$

where *CSi* is one of the two CS ratios defined above, *Intdiff* is the interest differential between equivalent Treasury bills , *Exch* is the nominal depreciation of the exchange rate, and *Ratchet* is the relevant ratchet variable of the CS ratio. The L indicates the optimal numbers of lags to be determined empirically through the Aikake criterion.

23. Note that one obvious problem in estimating equation (1) above is that both CS ratios are bound by definition in the interval between 0 and 1. Under a linear specification of the relation between CS and the independent variables, the fitted value of CS may fall outside the 0-1 range in case of extreme values of the independent variables. A uniform transformation was therefore applied to the CS ratios in the regressions below, defined as follows:

$$LCSi_t=Log_e\left(\frac{1-CSi_t}{CSi_t}\right) \quad (2)$$

which resolves the problem without affecting the results of the regressions, except for the sign of the coefficients. Moreover, to avoid spurious results due to seasonality, both CS ratios were deseasonalized by running a standard OLS regression with 12 seasonal dummy variables and saving the residuals of the regression.[10]

[10]All dummy variables in both the regression for the *CS1* and *CS2* ratio were statistically significant.

Econometric Procedure[11]

24. Table 1 shows the results of the Augmented Dickey–Fuller test for each time series described above. The table indicates that the null hypothesis of a unit–root can be rejected at the 95th percentile significance level for all variables, with the exception of *LCS2*. In other words, *LCS2* is the only variable that is not trend–stationary in the sample.[12]

25. In light of these results, it is important for the purpose of this analysis to identify an estimation procedure that can be applied regardless of the stationarity properties of the variables in the sample. The only option in this regard is to estimate equation (1) using an autoregressive distributed lag procedure (ARDL) following the methodology outlined in Pesaran and Shin (1995). The added benefit of such a procedure is that it allows for inferences on long–run estimates, which is not possible under alternative cointegration procedures.

Table 1. Augmented Dickey–Fueller Tests

	Test statistics
Variable	
LCS1	-3.5195**
LCS2	-2.1229
Intdiff	-4.8962**
Exch	-4.9529**

** Indicates a significance level above 95 percent.

26. The first step in the ARDL procedure outlined by Pesaran and Shin is to test for the long–run significance of the dependent variables.[13] In the case of equation (1), it involves the testing of the joint long–run significance of the constant, the *Intdiff,* the *Exch* and the ratchet variables. Table 2 presents the results of such a test for two different specifications of equation (1), namely without a ratchet variable (A) and with the relevant *Ratcs* variable (B).

[11]All econometric results were computed using the Microfit 4.0 software package for Windows, designed by M. H. Pesaran and B. Pesaran (1997).

[12]*LCS2* was also tested against the null hypothesis of a second order integration. The resulting test statistic was -5.738, clearly indicating that *LCS2* is integrated of order 1.

[13]This test is similar in kind to testing the significance of the ecm variable in an error correction model. For details, see Pesaran and Pesaran (1997).

The tests are distributed according to a non–standard F–statistic which has different critical values depending on whether the dependent variable is stationary or non–stationary.[14]

27. In the case of *LCS1*, the long–run significance test indicates that the dependent variables are significant only at the 90th percentile. By contrast, the inclusion in the specification of the *Ratcs1* yields a significance level above the 95th percentile, indicating that the ratchet variable has considerable explanatory power in the determination of the level of the *LCS1* ratio. For the second definition of the CS ratio, *LCS2*, specification (A) without ratchet variables yields a long–run significance test above the 95th percentile significance level. The inclusion of a ratchet variable in specification (B) reduces the significance test, even though the variable *Ratcs2* keeps the significance level still above the 95th percentile. In sum, these tests give a preliminary indication that, while for the narrow CS definition (*CS1*) a ratchet effect may be significant, under a broader CS definition (*CS2*) there is no significant ratchet effect. In fact, this preliminary result is also confirmed in the full regressions below.

Table 2. Results of Long-run Significance Tests

	LCS1 (Stationary)	*LCS2* (Non-stationary)
Dependent variables		
(A) *Intdiff, Exch, Constant*	3.4228*	5.2506**
(B) *Intdiff, Exch, Constant, Ratcs*	4.1315**	4.8908**

** Indicates a significance level of 95 percent.

* Indicates a significance level of 90 percent.

28. The regression results are presented in Table 3. For each specification, the table presents the error–correction representation of the short–run estimates and the implied long–run estimates. The optimal lag length for each variable—the coefficient L in equation (1)—is determined empirically by maximizing the Aikaike information criterion.

29. Using *LCS1* as the dependent variable, all short–run coefficients under the various specifications are statistically significant at the 90th percentile, with the exception of the contemporaneous coefficient of *dExch*. This poor significance of the coefficient in the first difference of the exchange rate depreciation may be an indication that expectations in the Kyrgyz Republic are indeed adaptive, so that only lagged values of changes in the rate of

[14]A table of critical values for this non–standard F–statistic is available in Pesaran and Pesaran (1997).

Table 3. Regression Results using the ARDL Procedure
Sample Period: May 1993 to October 1998

	LCS1		LCS2	
	(A)	(B)	(A)	(B)
Short Run Coefficients: Error Correction Representation				
dINTDIFF	0.143	0.151	0.092	0.128
	(3.904)	(4.137)	(1.906)	(2.593)
dINTDIFF(-1)	--	--	0.027	0.006
	--	--	(0.623)	(0.145)
dINTDIFF(-2)	--	--	-0.131	-0.124
	--	--	(-3.006)	(-2.918)
dEXCH	-0.109	-0.214	-0.404	-0.597
	(-0.232)	(-0.457)	(-1.073)	(-1.593)
dEXCH(-1)	1.100	1.230	0.102	0.234
	(2.083)	(2.339)	(0.247)	(0.577)
dEXCH(-2)	1.602	1.682	1.009	0.913
	(3.850)	(4.077)	(2.947)	(2.737)
dCONST	-0.695	-0.185	-0.044	0.797
	(-2.730)	(-2.496)	(-2.432)	(2.036)
dRATCS1	--	0.195	--	--
	--	(1.656)	--	--
dRATCS2	--	--	--	-0.645
	--	--	--	(-2.151)
ecm(-1)	-0.148	-0.269	-0.131	-0.126
	(-3.204)	(-3.127)	(-2.530)	(-2.515)
R-Squared	0.346	0.378	0.459	0.504
Akaike Information Criterion	33.852	34.388	48.397	50.089
DW-statistics	1.923	1.920	1.940	1.899
F-statisitc	5.822	5.462	6.304	6.479
Estimated Long Run Coefficients				
INTDIFF	0.969	0.561	0.864	0.904
	(3.633)	(3.155)	(2.619)	(2.618)
EXCH	-15.746	-9.796	-12.568	-11.949
	(-3.052)	(-3.165)	(-2.474)	(-2.413)
CONST	-0.470	-0.688	-0.338	6.302
	(-2.832)	(-5.221)	(-1.833)	(1.545)
RATCS1	--	0.725	--	--
	--	(2.681)	--	--
RATCS2	--	--	--	-5.098
	--	--	--	(-1.599)

depreciation have an effect on movements in the currency substitution ratio.[15] The ecm coefficient is highly significant in both regressions, reflecting the joint significance of the long–run coefficients. The F–statistic is also highly significant and, as expected under the ARDL procedure, the Durbin–Watson statistic does not indicate any sign of residual serial correlation.

30. More importantly, all long–run coefficients have the expected sign and are significant at the 99th percentile significance level. In particular, note the significance of the *Ratcs1* variable in specification (B). This confirms the intuition from viewing Figure 1 and the long–run significance tests above that there may indeed be a significant ratchet effect in the portfolio decision of Kyrgyz deposit holders. Nevertheless, it should be said that the sample covers a relatively short period of time and this result would need to be confirmed over a larger sample to ensure its robustness. After all, the fit of the error–correction specification, as measured by the F–statistic, is higher when the *Ratcs1* variable is omitted.

31. The results of the regressions with the *LCS2* ratio as a dependent variable are surprisingly similar, even though the significance tests are somewhat weaker, but with the important difference that the coefficient on the ratchet variable is insignificant. The short–run coefficients again are mostly significant, although some coefficients on the lags of the *dExch* and *dIntdiff* variables are below the 90th percentile significance level. The ecm variable is again significant in all specifications at the 95th percentile significance level and the F–statistic confirms the good fit of both specifications.

32. The similarities and differences in the results between the two measures of currency substitution (*LCS1* and *LCS2*) become more apparent when looking at the long–run coefficients. In particular, the coefficients are quite similar between the two sets of regressions, although the *Exch* and *Intdiff* variables have a somewhat lower impact on the broader measure of currency substitution.[16] More importantly, a marked difference from the previous results is the insignificant coefficient on the ratchet variable *Ratcs2*, suggesting that in the broader CS definition there are no ratchet effects that can be detected.

33. To sum, the econometric results show that the interest rate differential and the depreciation of the exchange rate are significant determinants of the CS process in the Kyrgyz economy. Moreover, while there may be a ratchet effect in the allocation of deposits, such an effect cannot be detected in the broader CS definition, confirming that the economy has not yet reached levels of "dollarization", as defined above, that would imply a substantial change

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[15]This result is also common to the regressions using the LCS2 ratio as a dependent variable, suggesting that this represents a more generalized phenomenon.

[16]The latter is an expected result inasmuch as there are more factors influencing the allocation of cash holdings than just the store of value motive which drives the allocation of deposits between domestic and foreign currency (see Calvo and Vegh (1992)).

in the currency used to fulfills the transactional role of money. In this respect, policy measures may still have a strong impact on the portfolio decisions of the private sector.

VI. Policy Implications

34. The empirical evidence and econometric results have shown that the CS phenomenon in the Kyrgyz Republic is not yet as advanced as in the classical cases of dollarized economies. In particular, while there may be a ratchet effect in the portfolio allocation of the more sophisticated Kyrgyz investors, this effect is not detectable in the economy at large. In this respect, there may be room for monetary policy to persuade the public to reverse its portfolio allocation in favor of the domestic currency by inducing greater stability in the exchange rate and fostering a sufficiently large real interest rate differential vis–à–vis the dollar.

35. The econometric results show that the depreciation of the som has been a significant factor in increasing the CS ratio, particularly among deposits. This suggests that the main incentive for the public to switch to dollar deposits has been to hedge against further depreciation. This flight into the dollar did not change during the period of relative exchange rate stability in 1997 and early 1998, indicating that a more sustained period of exchange rate stability is needed to reduce the role of dollar deposits as a provider for the store–of–value function to sophisticated investors. The hovering of the deposit-based CS ratio at about 40 percent during that period could indicate that the medium of exchange function has not yet become a predominant motive for holding foreign exchange in the Kyrgyz Republic.[17]

36. There are many reasons why the som has been depreciating against the U.S. dollar over the last five years—and it is beyond the scope of this paper to identify all of them—but it can safely be argued that the main source of the depreciation has been the still large, albeit falling, inflationary differential between the Kyrgyz economy and advanced economies. By further stabilizing the Kyrgyz economy, and bringing inflation down to single digits in particular, monetary policy could therefore bring greater stability to the exchange rate and thus alleviate the store–of–value incentive behind the process of currency substitution.

37. Secondly, interest rate differentials have also been shown to be a significant determinant in the portfolio allocation of the private sector. While the econometric results are based on the differential between three–month treasury bill rates, depositors are likely to be mainly guided by deposit rates. Since interest rates are completely liberalized in the Kyrgyz Republic, the authorities' scope for directly affecting banks' setting of such rates is limited. Nominal interest rates on som deposits have been relatively high over the last few years. Nevertheless, banks have also been eager at times to attract dollar deposits by providing relatively high interest rates on these deposits in order to extend additional dollar credits and profit from the large margin associated with them. Hence, the interest rate differential may not

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[17]This is also supported by the absence of a dollar-based payments and settlement system.

have been sufficiently high to compensate som depositors for the expected depreciation of the domestic currency and the risk premium that inevitably is associated with it.

38. Moreover, a comparison between treasury bill rates and deposit rates suggest that there may still be institutional factors in the Kyrgyz banking system that prevent deposit rates from following treasury bill rates more closely. Eliminating these institutional constraints in the banking system could ultimately reduce the stickiness of deposit rates and bring them closer in line with treasury bill rates in each currency, thus increasing the opportunity cost of holding deposits in dollars. Another possibility, though controversial, is the imposition of a tax on foreign currency intermediation, in the form of either higher reserve requirements for dollar-denominated deposits or lower remuneration rates on such requirements. However, given the inconclusive results in other countries and the risk to financial intermediation in the nascent banking system, the merits of such an approach would be doubtful.[18]

[18]International Monetary Fund (1997).

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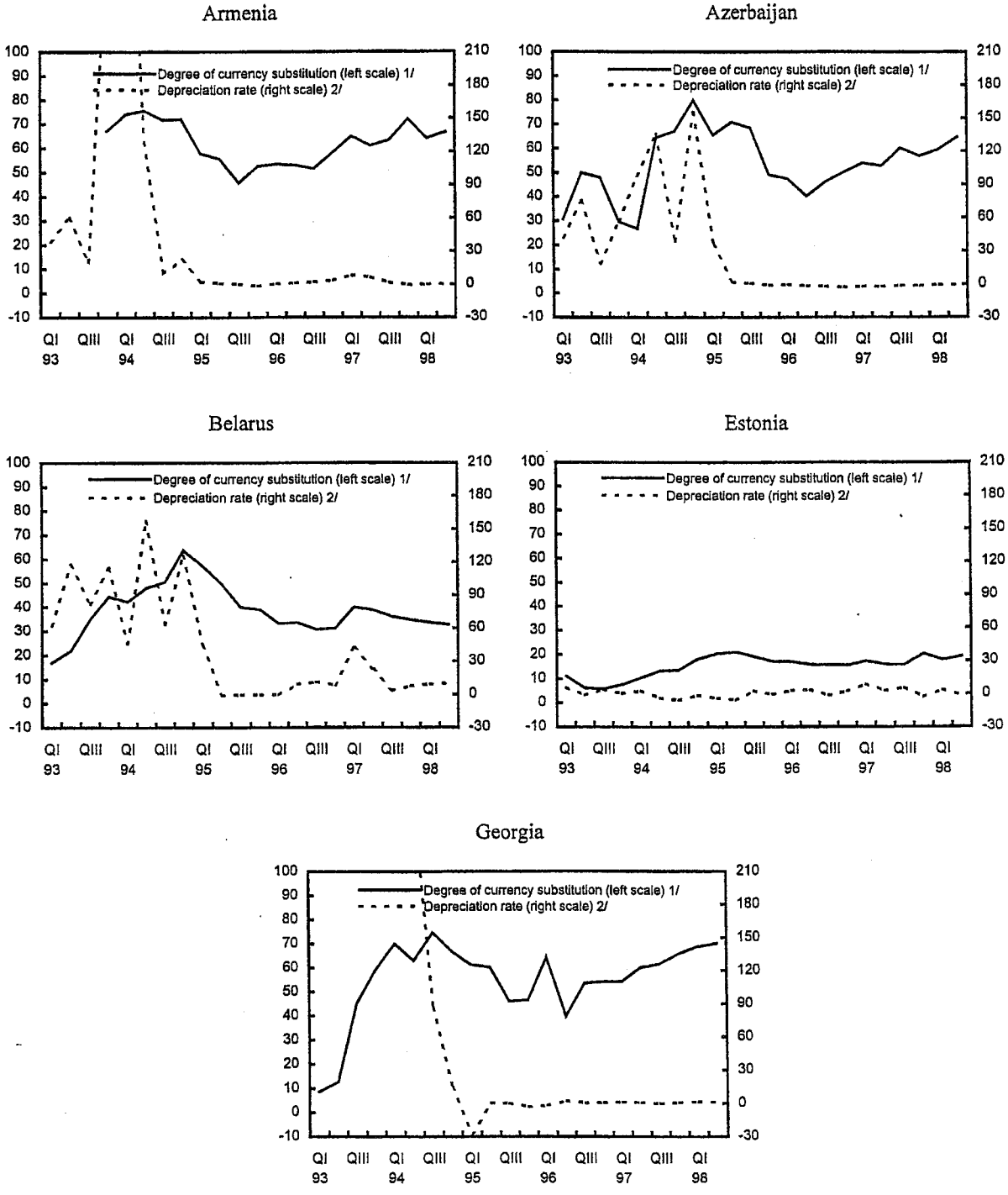
Figure 2. Armenia, Azerbaijan, Belarus, Estonia, and Georgia:
Degree of Currency Substitution and Depreciation Rate, 1993-98

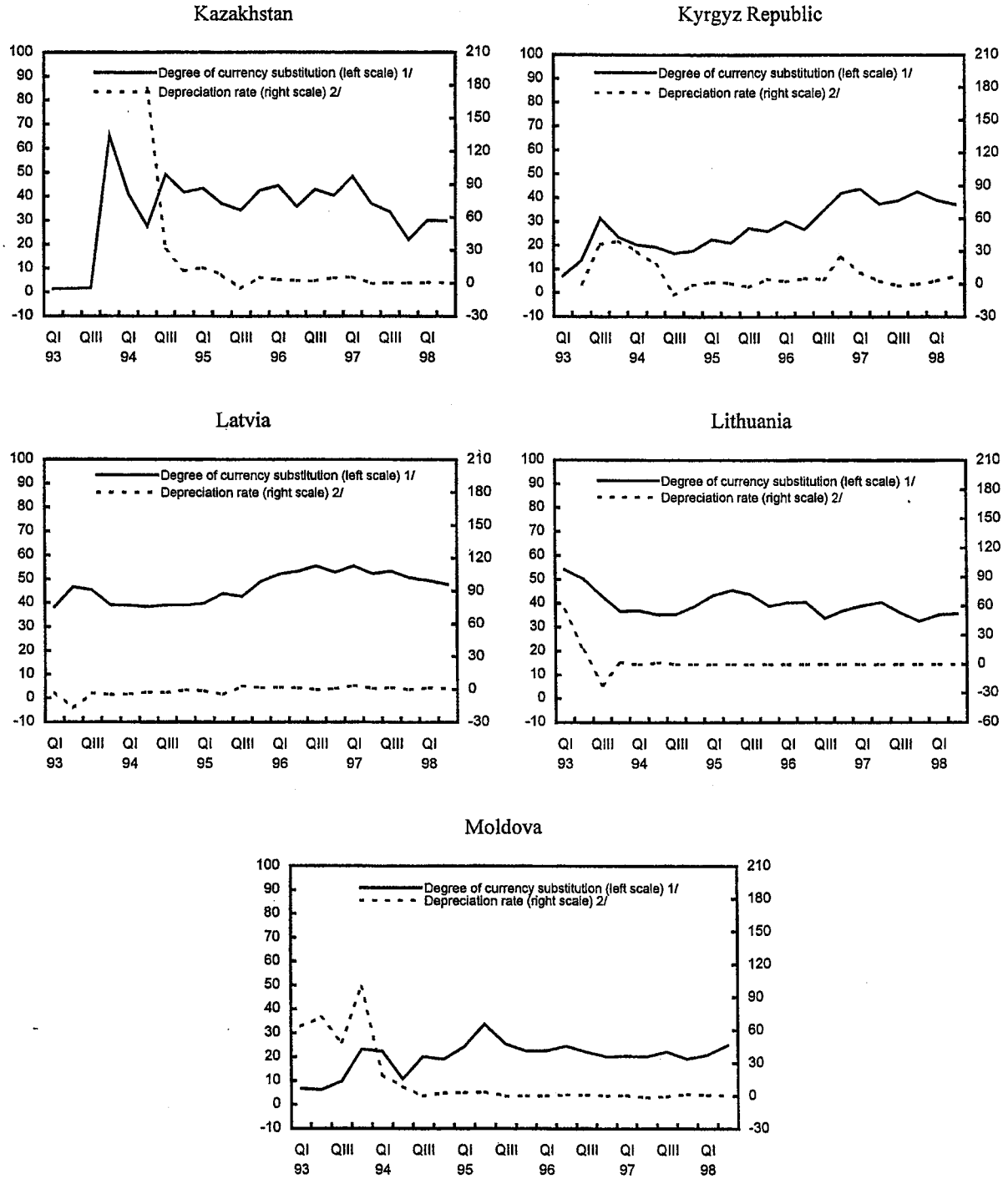


Sources: European II Common Database.

1/ Degree of currency substitution is defined as ratio of foreign exchange deposits to total deposits.

2/ Depreciation rate of domestic currency vis-à-vis the U.S. dollar.

Figure 3. Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, and Moldova: Degree of Currency Substitution and Depreciation Rate, 1993-98



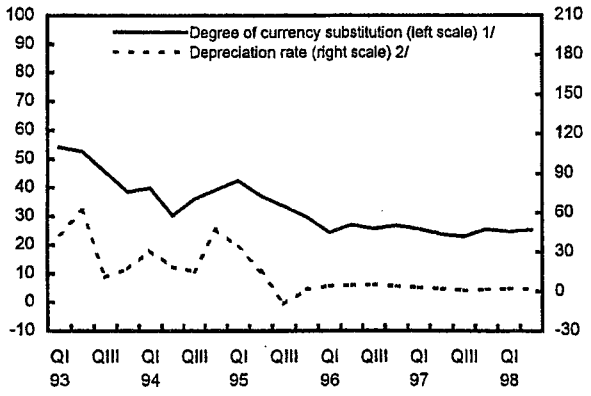
Sources: European II Common Database.

1/ Degree of currency substitution is defined as ratio of foreign exchange deposits to total deposits.

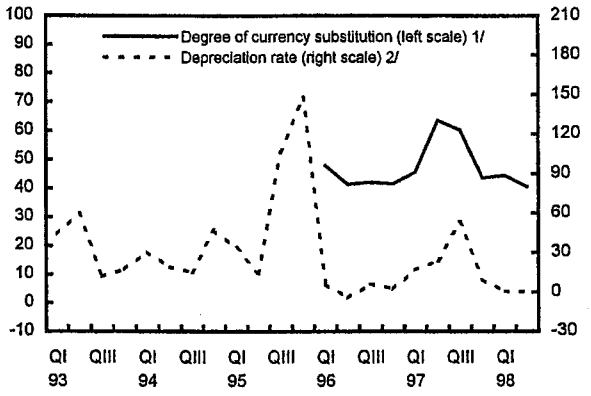
2/ Depreciation rate of domestic currency vis-à-vis the U.S. dollar.

Figure 4. Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan: Degree of Currency Substitution and Depreciation Rate, 1993-98

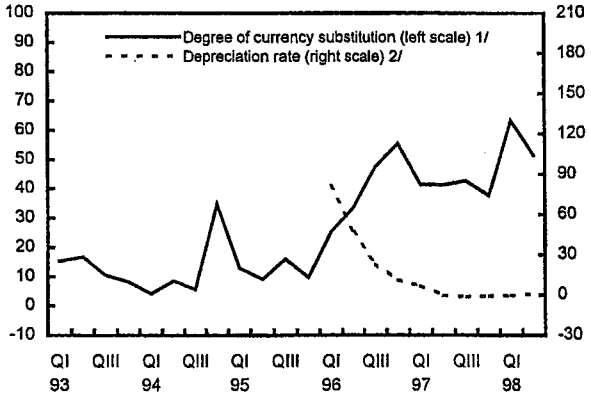
Russia



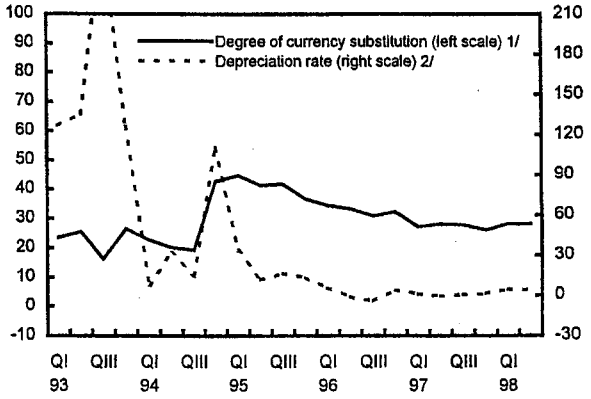
Tajikistan



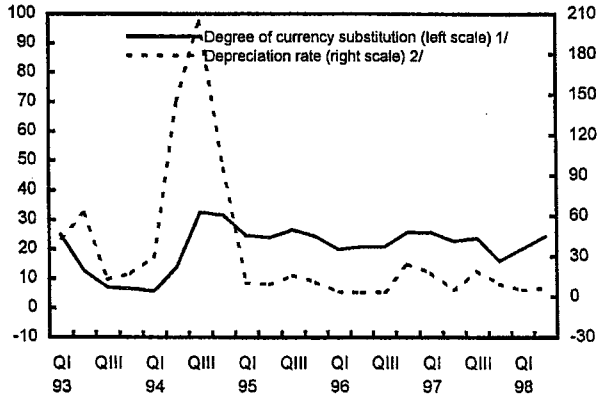
Turkmenistan



Ukraine



Uzbekistan



Sources: European II Common Database.

1/ Degree of currency substitution is defined as ratio of foreign exchange deposits to total deposits.

2/ Depreciation rate of domestic currency vis-à-vis the U.S. dollar.

FISCAL SUSTAINABILITY IN THE KYRGYZ REPUBLIC

I. INTRODUCTION AND SUMMARY FINDINGS

1. Before independence in 1991, the Kyrgyz Republic received substantial direct subsidies from the Soviet Union in the form of transfers, and indirect subsidies through exports priced above and imports priced below world market prices.

2. It was, therefore, not surprising that after independence the Kyrgyz Republic experienced significant domestic and external imbalances when the transfers stopped and exports and import markets were faced with world market prices and the breakdown of traditional trade and payment links. The resulting budget deficit was mainly financed through direct credit from the central bank, while, at the same time, both domestic and external arrears were accumulated. Inflation reached more than 1250 percent in 1993, and real GDP declined by about 50 percent between 1992 and 1995.

3. This appendix analyzes fiscal sustainability issues with a forward looking view from 1998 onwards. It takes into account the expectation that external aid in the short run will shift from balance of payments support to project support, and that the latter is likely to peak within a few years. It also incorporates the present state of the domestic capital markets and the limited prospects of financing budget deficits domestically, especially in the light of repercussions of the Russian crisis.

4. The analysis clearly shows that the present level of the budget deficit is not sustainable. The analysis also shows that only under optimistic assumptions combined with the strong adjustment under the ESAF program will the budget reach sustainability before end-2004. This implies that there is no "quick fix" to the problems facing the country, and that tight demand management policies and policies conducive to economic growth will have to be implemented consistently over a long period of time. One of the policy implications of this conclusion is that the authorities must strengthen the efficiency of public expenditures, especially in the social areas, in order to improve living standards of the population and ensure the continued support of the reforms.

A. Domestic and External Government Debt: Historical Background

5. During the early years of transition and after the introduction of the national currency, the som, the domestic financing of the budget deficit reflected almost entirely credit from the National Bank of the Kyrgyz Republic (NBKR).

6. In 1993 the government started to finance part of the budget through sales of t-bills. In 1997, the composition of the domestic component of the budget financing shifted further away from direct credit to t-bills, and beginning in 1998, no direct credit from the central bank has been granted (Table 1). At the end of 1998, domestic public debt, excluding debt to the

Central Bank, was about som 2.0 billion (5.5 percent of GDP). In spite of the absence of restrictions on sale of government securities to foreigners, non-residents' holdings of som-denominated government debt has been, and still is, very limited.

7. Due to the existence of sizable current account deficits, the country has accumulated foreign debt rapidly since independence. By the end of 1998, the foreign public debt was equivalent to 66 percent of GDP, compared to no external debt in 1992. The majority of this debt has been made available through international financial institutions. Due to the concessional nature of most of the external debt, the debt is about one-fourth smaller in NPV-terms than in nominal terms (Figure 1).

Table 1. Kyrgyz Republic: Budget Financing 1993–98

	1993	1994	1995	1996	1997	1998
			(In percent of GDP)			
Budget deficit	-14.4	-11.6	-17.3	-9.5	-9.0	-8.8
External financing	12.8	9.8	9.1	6.9	7.8	8.3
Domestic financing	1.6	1.9	8.2	2.6	1.2	0.5
Of which:						
Direct NBKR credit 1/	1.6	1.7	6.2	2.6	0.3	0.0
T-bills 2/	0.9	0.5	0.4	0.2	0.7	0.1

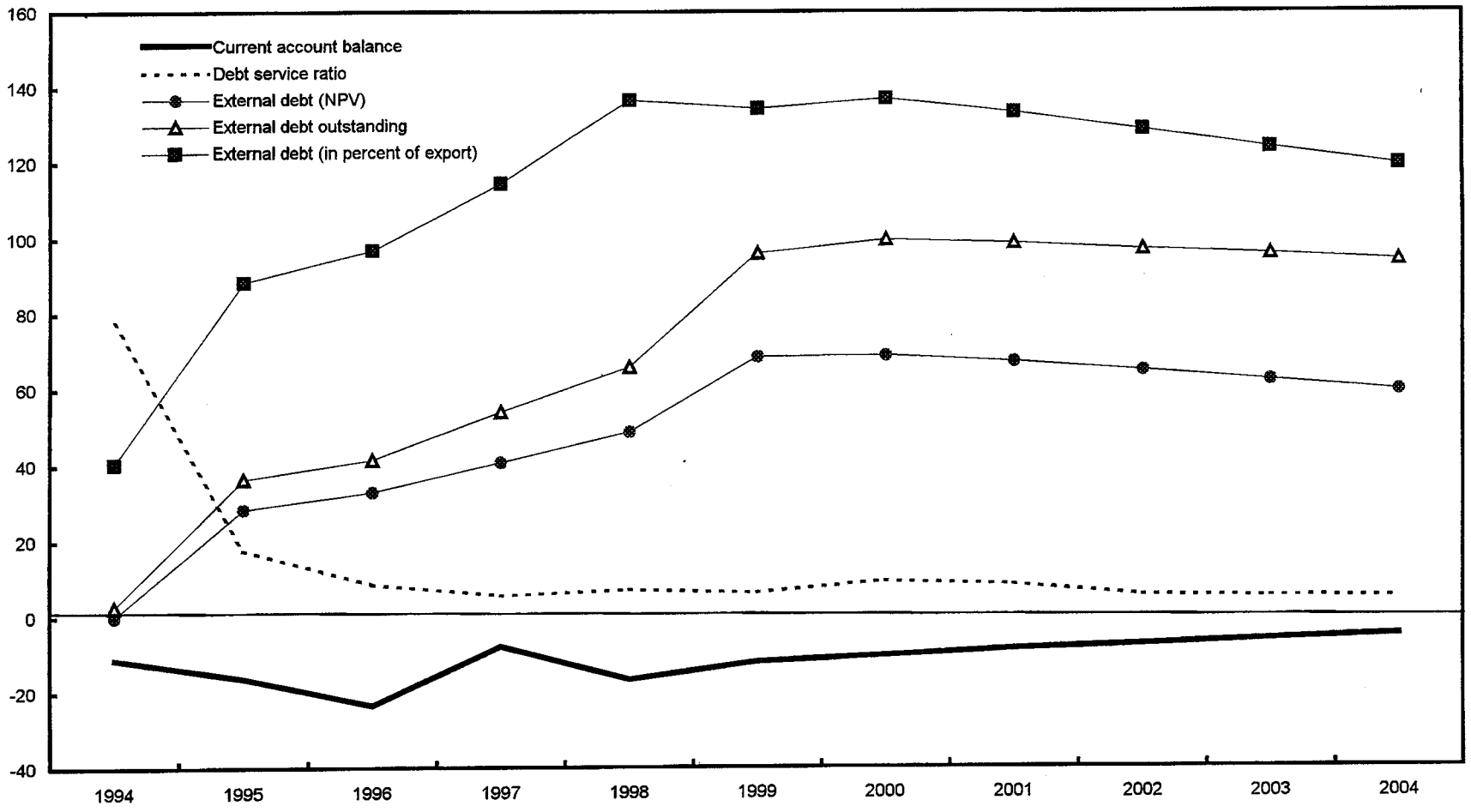
Source: Kyrgyz authorities; and Fund staff estimates.

1/ Direct NBKR credit in 1997 excludes the effects of the securitization of old direct credits.
2/ Includes a small amount of medium-term government bonds.

B. Overview of Literature

8. Assessing the sustainability of the fiscal policy is a complex and judgmental exercise. However, a significant amount of research has been published on the topic. Some studies use a base year public sector debt-to-GDP ratio as a benchmark, and attempt to measure the size of the fiscal adjustment needed to stabilize the debt-to-GDP ratio. Most other studies derive some form of fiscal sustainability measure based on the intertemporal government budget constraint. Major innovations along this line are the following: (i) The "constant net worth deficit ratio" by Buiter (1985), defined as the difference between the present discounted value of the primary fiscal balance and public sector net worth (relative to GDP); (ii) "The primary gap" by Blanchard (1990), defined as the difference between the primary balance that stabilizes the outstanding public debt to GDP ratio and the actual primary balance; (iii) "The medium-term tax gap" also by Blanchard (1990), defined as the difference between tax ratio that stabilizes the initial public debt to GDP and the actual tax ratio; and (iv) "The sustainable primary deficit ratio" by Buiter (1990) and van Wijnbergen (1989), defined as the primary

Figure 1. Kyrgyz Republic: External Debt Indicators, 1994-2004
(In percent of GDP; unless otherwise indicated)



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

deficit ratio that can be financed without an increase in debt to GDP ratio and without monetary financing of the public deficit.

9. Measures (i) through (iii) are based on a set of restricted information on macroeconomic variables. Usually the outcome of these calculations is very sensitive to the choice of parameters. Measure (iv) is the most flexible one, as it allows the interplay of the variables and relies on a broader set of information. Our analysis utilizes this measure to study the fiscal sustainability of the Kyrgyz government.

II. FISCAL SUSTAINABILITY ANALYSIS

A. The model

10. Most measures of fiscal sustainability are based on the accounting approach to public sector solvency, and derived from the following intertemporal budget constraint:

$$\frac{D^p}{P\cdot y}+i\cdot\frac{D}{P\cdot y}+i^*\cdot\frac{ED^*}{P\cdot y}=\frac{\dot{M}}{P\cdot y}+\frac{\dot{D}}{P\cdot y}+\frac{E\dot{D}^*}{P\cdot y} \qquad (1)$$

where D^p is the primary balance of the government; D is the domestic public debt stock; D^* is the external public debt stock; E is the nominal exchange rate; i and i* are the domestic and foreign interest rates respectively; P is the price deflator; y is the real GDP; and M is the base money stock. This budget constraint can be reformulated as follows:

$$pd=\dot{m}+(\pi+g)m+\dot{d}+(g-r)d+\dot{d}^*+(g-r^*-\varepsilon)d^*, \qquad (2)$$

where every variable is expressed relative to GDP, pd is the primary deficit ratio, ε is the real depreciation rate, π is inflation, g is the real growth rate, and r and r^* are the domestic and foreign real interest rates, respectively. The above equation states that the primary deficit ratio of the government is constrained by the six financing resources: monetary financing of the deficit; seigniorage revenue of the central bank; domestic debt financing; domestic "efficiency financing"; foreign debt financing; and foreign "efficiency financing". The domestic efficiency financing is positive if real growth leads to an excess of the domestic growth rate over the real domestic interest rate, hence the name efficiency financing. Symmetrically, if the growth rate is higher than the foreign real interest rate and real depreciation rate, the foreign efficiency financing is positive.

11. The sustainable primary deficit ratio is calculated by setting base money ratio growth and the domestic and foreign debt stock ratio increase to zero at the beginning of each period.

This implies that the primary deficit has to be financed without resorting to increasing the domestic and foreign debt ratios, and without monetary financing of the deficit.

B. Data Description and Results of the Simulations

12. The following study is based on three different scenarios: a baseline, an optimistic and a pessimistic scenario. Under these scenarios, three different paths for the sustainable primary deficit are calculated according to equation (2) based on three different sets of assumptions. The scenarios differ with respect to the assumptions on real GDP growth, the real foreign interest rate, and the growth rate of base money (Table 2).

Table 2. Kyrgyz Republic: Simulation Assumptions, 1998-2004

	1998	1999	2000	2001	2002	2003	2004
Baseline							
Real GDP growth (in percent)	2.0	2.7	3.5	3.9	4.2	4.2	4.2
Real external interest rate (in percent)	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Base money growth (in percent)	6.8	9.0	13.9	12.1	11.9	11.9	11.3
Pessimistic (change relative to baseline)							
Real GDP growth (in percent)	0	-1	-1	-1	-1	-1	-1
Real external interest rate (in percent)	0	+1	+1	+1	+1	+1	+1
Base money growth (in percent)	0	-2	-2	-2	-2	-2	-2
Optimistic (change relative to baseline)							
Real GDP growth (in percent)	0	+1	+1	+1	+1	+1	+1
Real external interest rate (in percent)	0	-1	-1	-1	-1	-1	-1
Base money growth (in percent)	0	+2	+2	+2	+2	+2	+2

Source: Kyrgyz authorities; and Fund staff estimates.

13. The calculations are made separately for each year based on the projected debt stocks, exchange rates etc. underlying the medium-term projections of the ESAF program (Table 3) and the assumptions outlined in Table 2. In other words, the calculations show what the primary deficit should have been in a specific year under different assumptions in order for the debt ratios to remain constant, and assuming no monetary financing. The assumptions underlying the baseline scenario are in line with the medium-term projections under the ESAF program. Accordingly, the assumed GDP growth is the same as under the ESAF program, the real foreign interest rate is assumed constant at 3 percent[1], while base money over the medium

[1]More than 50 percent of the external debt is contracted at concessional terms with a real interest rate around zero, while the remaining debt is assumed to carry a real interest rate of

(continued...)

term is projected to grow by 2 percent more than nominal GDP growth, assuming a slowly declining velocity of money. Relative to their baseline scenario, the optimistic scenario assumes a higher real growth rate, higher money growth, and a lower real foreign interest rate, whereas the pessimistic scenario assumes the opposite. To assess the sustainability of future projected primary deficits, the three sustainable deficit scenarios are compared to the corresponding primary deficits.[2]

14. The results of the analysis are presented in Figure 2. The graphs correspond to the scenarios mentioned above. The gradual narrowing of the gaps between the curves under all scenarios indicate that the budget deficits are getting more sustainable, given the strong adjustment under the medium-term adjustment path of the ESAF program. The graphs also show that only under optimistic assumptions will the primary budget deficit become sustainable before the end-2004.

III. CONCLUSION

15. It is obvious from the above analysis that the present fiscal position in the Kyrgyz Republic is not sustainable. To reach sustainability, tight demand management policies and policies sitmulating private sector activity will have to be continued for a prolonged period of time. The severity of the problem is illustrated by the fact that fiscal sustainability will only be reached before end-2004 under the optimistic assumptions combined with the strong adjustment scenario of the ESAF program. In this environment the efficient targeting of scarce public resources becomes even more important, to alleviate the social impact of necessary budget cuts and to ensure continued public support of the reforms.

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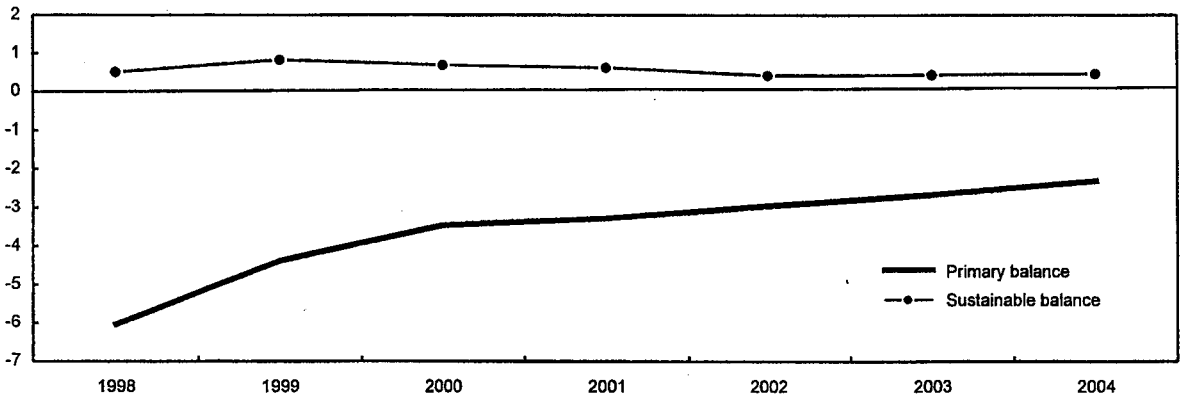
[1](...continued)
about 6 percent.

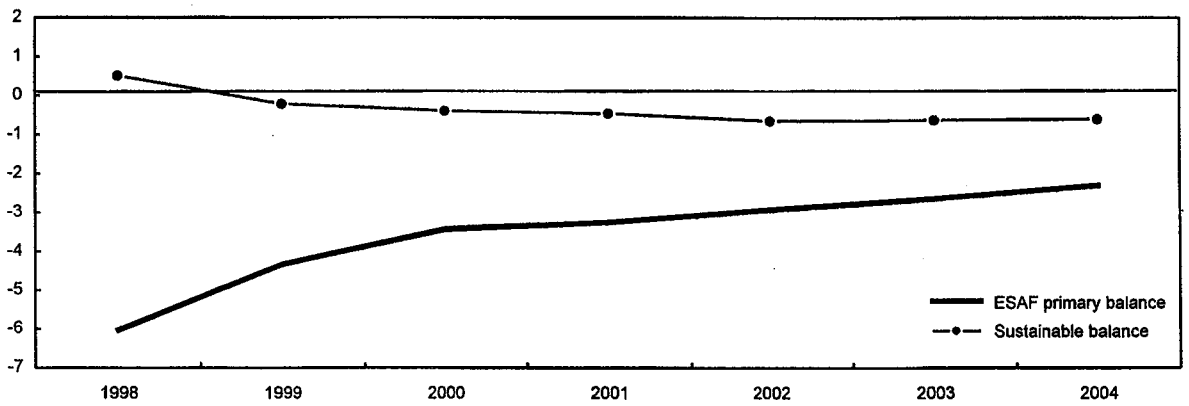
[2]The nominal budget deficit is assumed to be the same under the three scenarios. Accordingly, the fiscal adjustment relative to GDP will be strongest under the optimistic scenario due to the higher GDP, followed by the baseline and the pessimistic scenarios.

Figure 2. Kyrgyz Republic: Sustainable and Primary Balances, 1998-2004
(In percent of GDP)

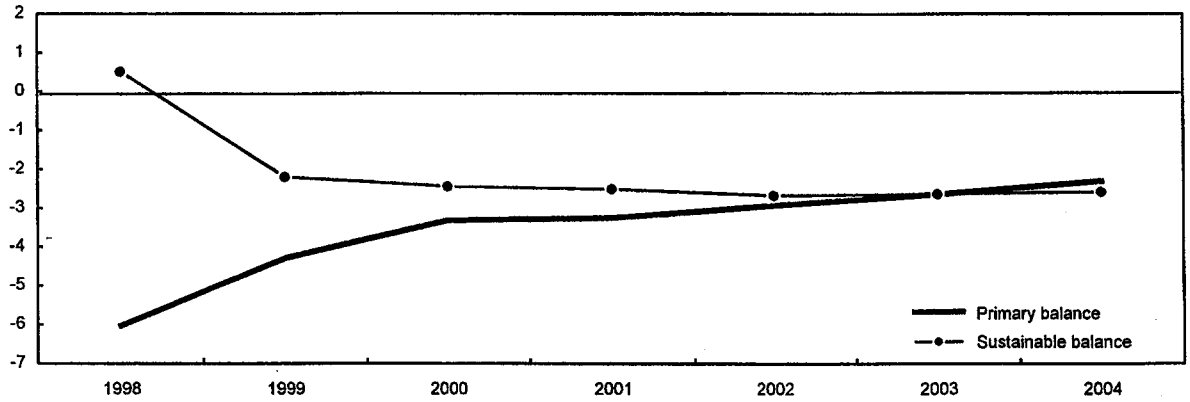
Pessimistic Scenario 1/



Baseline Scenario 2/



Optimistic Scenario 3/



Sources: Kyrgyz authorities; and Fund staff estimates and projections.
1/ Assumes a 1 percentage point lower annual GDP growth than under the ESAF program, a 4 percent real external interest rate, and money growth equal to nominal GDP growth.
2/ Assumes GDP growth as under the ESAF program, a 3 percent real foreign interest rate, and a 2 percent stronger money growth than nominal GDP growth.
3/ Assumes a 1 percentage point higher annual GDP growth than under the ESAF program, a 2 percent real external interest rate, and a 4 percent stronger money growth than nominal GDP growth.

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Table 3. Kyrgyz Republic: Key Assumptions of Medium-Term ESAF Program, 1998-2004

	1998	1999	2000	2001	2002	2003	2004
Real GDP growth (in percent)	2.0	2.7	3.5	3.9	4.2	4.2	4.2
Nominal GDP growth (in percent)	16.8	12.2	12.0	10.1	9.8	9.6	9.3
Inflation (average, in percent)	12.0	14.7	6.6	5.3	5.1	4.9	4.6
Change in real exchange rate (in percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic public debt (in percent of GDP)	5.7	5.3	5.0	5.6	6.3	7.0	7.8
External public debt (in percent of GDP)	65.8	95.9	99.5	98.6	97.0	95.8	94.0
Total revenues (in percent of GDP)	16.5	18.1	18.6	19.1	19.7	19.9	20.1
Total expenditures (in percent of GDP)	25.4	26.5	26.1	25.8	25.8	25.7	25.4
Budget balance (in percent of GDP)	-8.3	-7.6	-6.2	-5.9	-5.5	-5.2	-4.8
Primary balance (including PIP, in percent of GDP)	-6.0	-4.3	-3.4	-3.3	-2.9	-2.6	-2.3

Source: Kyrgyz authorities, and Fund staff estimates.

Kyrgyz Republic: Summary of the Tax Structure and Changes Introduced from 1996 to the present.			
Tax	**Nature of Tax**	**Rates**	**Exemptions**
Income tax	• Comprehensive, encompassing all sources of global income (both monetary and in-kind). • For non-residents, applicable to income earned in the Kyrgyz Republic only. • Tax revenues are allocated to Republican budget (65 percent) and local budgets (35 percent).	• Up to 5 times the minimum wage: 5 percent • 5-15 times the minimum wage: 5 percent on the first 5 min.wages and 10 percent for the extra amount • 15-25 times the minimum wage: 15 percent over 15 min. wages. • 25-35 times the minimum wage: 20 percent over 25 min. wages. • 35-45 times the minimum wage: 30 percent over 30 min. wages. • Over 45 times the minimum wage: 40 percent over 35 min. wages	• State allowances, stipends, salaries from internships, personal gifts, humanitarian aids, alimonies, life insurance benefits, income transfer as a result of marrige, pensions, and unemployment benefits. • Income derived from the extraction of precious metals. • Compensation payments for work accidents, health insurance payment for trauma. • Income from the sale of apartments, residential houses, cars, jewelry, artwork with value of less than 500 minimum wages, income from the sale of livestock, poultry or other animals alive, raw or processed, income from the sale of goods grown in the taxpayer's personal lot, income from the sale of blood. • Allowances received by people working in the Ministry of Internal Affairs, State Security Ministry and Defense Ministry . • Inheritance, lottery winnings; • Interest income, insurance compensations, in-kind gifts from enterprises, emergency financial assistance, moving allowances for workers, separation and severance payments.
			• Housing and food allowances. • Income from agricultural activity during the first two years of the existence of a farm. • Salaries earned abroad within established limits. • Dividends reinvested in an enterprise for technical reconstruction, income from sales of privatization coupons. • Income for performing compulsory military service, for being a hero of social labor, for being invalid, for being a veteran of World War II or the Afghan war.

Kyrgyz Republic: Summary of the Tax Structure and Changes Introduced from 1996 to the present.			
Tax	**Nature of Tax**	**Rates**	**Exemptions**
Payroll tax	• Levied on wages and salaries. • Consists of contributions to the Pension Fund, Unemployment Fund and Health Insurance Fund. • Collected and managed by the Social Fund.	Employers: **34** percent *of which:* • 31 percent to the Pension Fund • 1.5 percent to the Unemployment Fund • 1.5 percent to the Health Insurance Fund Employees: **5** percent *of which:* • 4 percent to the Pension Fund • 0.5 percent to the Unemployment Fund • 0.5 percent to the Health Insurance Fund	• In the agricultural sector, employers' contribution is 23 percent to the Pension Fund. • Although legally introduced in January 1997, the increased rates for health insurance have not been collected so far.

Kyrgyz Republic: Summary of the Tax Structure and Changes Introduced from 1996 to the present.			
Tax	**Nature of Tax**	**Rates**	**Exemptions**
Profit tax	• Complex cash basis tax applicable to all legal entities engaged in business activity in Kyrgyz Republic. • Tax Base is defined as total revenue minus total expenses. • Deduction allowed subject to restrictions: (1) Traveling expenses are only deductible within an amount fixed by the Government; (2) Deduction of interest paid on a credit can not exceed the sum of the taxpayer's interest income plus 50 percent of the taxable income; (3) No deduction is allowed for the cost of acquisition or installation of capital assets; and (4) 10 restrictions imposed on the computation of the aggregate income. • Losses can be carried over for five years as a deduction. • Depreciation: currently five categories (in percent per year): (1) Automobiles - 30 percent (2) Automotive fleets - 25 percent (3) Depreciable assets and expenses of the same status not included in another category - 20 percent (4) Railroad, sea and river transportation equipment - 10 percent	•30 percent for taxable profit. •5 percent for dividends •5 percent on interest income	• Exemptions apply to (1) Non-profit public organizations for income from charity activities, (2) Legal entity in which the blind and the deaf comprise over 70 percent of the total employees; (3) Registered enterprises with foreign capital participation based on the foreign investment law as follows: (a) during the first 5 years for profits from activities in the area of industry or construction; (b) during the first 3 years for profits from mining and processing of natural resources, agriculture, transport or communications; (c) during the first 2 years for tourism, trade, banking or insurance activities. • Tax reductions are available to enterprises with foreign capital invested upon the expiration of exemption period: (1) by 50 percent for reinvested profits; (2) by 25 percent, if no less than 50 percent of manufactured production and services is exported; (3) by 25 percent, if no less than 50 percent of the production is manufactured from imported raw materials; (4) by 25 percent, if no less than 20 percent of the profit is used for professional training.

Kyrgyz Republic: Summary of the Tax Structure and Changes Introduced from 1996 to the present.			
Tax	**Nature of Tax**	**Rates**	**Exemptions**
VAT	• Credit-invoice method. • Applicable to legal entities. • Turnover threshold for registration: 100,000 soms (~5,263 US$). • Provision for voluntary registration. • Credit allowed for VAT acquired on material resources (including raw materials and equipment, fuel, spare parts, etc.). Credit arises upon shipment of goods (accrual principle). • Excess credits are carried forward to the next VAT tax period and may be offset against other tax liabilities. • Origin basis for trade within CIS, and destination principle for non-CIS trade.	20 percent flat	•Zero rated: (1) exports to another CIS countries, and (2) diplomatic privileges. •Exemptions: (1) Land and buildings, (2) Financial services, (3) Insurance and pension services, (4) Postal services, (5) Municipal transport services, (6) Privatization, (7) Supplies by non-profit organizations, (8) Gambling (9) Specified imports goods, (10) Imports by taxable subjects of fixed assets for direct use (11) agricultural supplies (12) food processing (as of Dec 97).
Right-to-trade	• Local tax	• Ranges from 0-2 percent.	

Kyrgyz Republic: Summary of the Tax Structure and Changes Introduced from 1996 to the present.			
Tax	**Nature of Tax**	**Rates**	**Exemptions**
Excises	• Cover alcohol beverages, tobacco, coffee, tea, carpets, crystal, electronic goods, jewelry, leather goods, fur, firearms and gas weapons, gasoline and distilled petroleum products. • The taxable base for domestic goods is given by wholesale price excluding other taxes. For imported goods it is the customs value of the goods. • Rates are determined by parliament.	• Vodka: $0.9/liter • Wine: $0.35/liter • Spirits: $1.4/liter • Beer: - Bottled or canned: $0.11/liter - otherwise - $0.08/liter • Champagne: $0.4/liter • Cognac: $0.6/liter • Fermented tobacco: 12 percent • Cigarettes: -with filters: $1.6/thousand -without filters: $0.75/thousand • Gasoline and distilled petroleum products: $50/ton • carpets: 10 percent • crystal: 20 percent • gold: 20 percent	• Exports of excisable goods if exported to CIS countries. • Goods imported by physical persons in limited amounts set by the Government. • For the following imported goods: - Goods necessary for operation of vehicles for international cargoes, transportation etc. - Goods damaged before crossing the border. - Humanitarian assistance - Charity purposes, including technical assistance by the state, government and international agencies. - For use by foreign officials, members of the diplomatic corps. - Goods in transit due to reexport.
Customs duties	• Levied on non-excisable goods.	• 10 percent flat rate for non-oil goods. • 20 percent rate for computers	• Goods imported from CIS-countries if produced within the CIS. • Goods produced by companies located in Free Economic Zones. • Imports of property for the use of an enterprise with foreign participation according to the Foreign Investment Law.

Kyrgyz Republic: Summary of the Tax Structure and Changes Introduced from 1996 to the present.			
Tax	**Nature of Tax**	**Rates**	**Exemptions**
Land tax	• Applicable to physical and legal land users. • 75 percent of the tax obligation is collected during the third and fourth quarter of the current year (before December 25th) from the current year's crop. • 25 percent is collected from the previous year's crop during the first quarter. (before March 25th). • Local taxes.	• For agricultural areas, the amount of the tax is determined based on quality (fertility) of soils, location and area of the land lot • For non-agricultural use areas, the infrastructure and town planning potential is also take into account.	• Tax reduction of 50 percent for areas rated by the Government of the Kyrgyz Republic as difficult lots with unfavorable natural and climatic conditions. • Exemptions: - national parks and sites with historical significance or used for cultural purposes etc. - cemeteries. - cattle tracks and cattle stopping places. -land used by enterprises subsidized or financed by the budget. -land used by organizations of invalids, or participants of the war. -land belonging to the Society of the Deaf and the Blind. -land reclaimed for agriculture in a previously barren condition (requiring recultivation) for a period set by the local Kenesh.
Extraordinary Fund	• Applied to enterprises, associations and organizations as a percentage of turnover.	• 1.5 percent of turnover.	
Road tax	• Applied to enterprises, associations and organizations, based on turnover on manufacturing and construction enterprises, and commodity turnover, for warehouses.	• 0.8 percent of turnover: for manufacturing and construction enterprises. • 0.08 percent of commodities turnover: for warehouses.	

Nonbank Financial Institutions and the Payment System

A. Nonbank Financial Institutions

1. While financial intermediation and the provision of financial services through the banking system has finally taken off, banking activities have to date met only a small part of the needs of large segments of the population and of the developing private sector. Given the large share of agriculture in the Kyrgyz economy and the closure of Agroprombank in the context of the restructuring of the banking system, the provision of financial services to the rural population and of credit to the agricultural sector has become a top priority to the Kyrgyz authorities. The authorities have responded by a two-pronged strategy: first, they established the Financial Corporation for Support and Development of Credit Unions (FCSDCU) in April 1997, partially supported under an AsDB program; and second, they created the Kyrgyz Agricultural Financial Corporation (KAFC) in December 1996 with the assistance of the World Bank.

2. The FCSDCU is in charge of promoting the emergence of credit unions, refinancing their credit portfolios, supervising their activities, and providing training and other technical and organizational support. Its authorized capital was fully provided by the NBKR in three installments during 1997 and 1998 and currently amounts to som 10 million. As a result of this program, the number of credit unions more than tripled to 66 institutions between January and mid-October 1998. The unions currently have an aggregate capital of som 6.2 million and have extended som 8.3 million in loans to their nearly 2500 members.

3. Equipped with an authorized capital of som 150 million, the KAFC started financing agricultural projects in Mach 1997 with a view to eliminating direct budgetary lending to the sector by 2000. By mid-October 1998, the KAFC had approved and financed projects in a total amount of som 109.4 million, compared to a total of about som 1.7 billion in credit to the economy by the banking system. The KAFC offers various credit programs for different agricultural borrowers, ranging from loans below som 20,000 to organized small farmers to loans exceeding som 1.5 million to medium- to large-size farms and corporate clients in agro-processing industries. Depending on the loan program, different standards for collateral apply. Loans are generally extended in national currency for 1 to 4 years, with an interest rate of around 30 percent. Lending to small farmers currently accounts for about one fifth of all KAFC loans.

4. To cope with the need to provide financing for the reconstruction of houses destroyed by the mudslides in the spring of 1998, the Kyrgyz authorities created a Housing Fund ("Fund for Housing and Special Development") under the umbrella of the Debt Restructuring Agency (DEBRA). While it is DEBRA's principal task to handle the non-performing portfolios of two former state-owned banks restructured under the FINSAC, its bylaws also mandate the development of mortgage schemes against the background of a lack of such services in the Kyrgyz Republic to date. The Fund was established in May 1998 and is directed not to pursue

commercial purposes but solely to facilitate the reconstruction of the damaged houses in the mudslide area. With a capital of som 43 million, of which som 35 million was provided by the NBKR—a quasi-fiscal operation—the Fund had disbursed almost the entire amount for construction and repair of about 800 houses by mid-October.

B. The Development of the Payment System

5. The vast majority of payments in the Kyrgyz Republic is made in cash or as barter, but bilateral and trilateral netting operations of debts are also common. This is the result of the hyperinflation and the banking failures in the early 1990s, which led to a demonetization of large parts of the economy. With resumption of growth and the gradual remonetization of the economy, the design of the payments system has become an important factor in the development of the financial system. The old payments system, which was in operation until 1996, was based on a complicated system of decentralized correspondent accounts. The system was based on manual procedures, and a payment could take more than one month to settle. Both retail and large value payments were channeled through the system.

6. A two-tier payment system was introduced in 1996. Small value payments have since then been settled through a partly automated multilateral netting system (while a fully automated system has been in operation as a pilot project since September 1997). The payment system is based on six decentralized clearing centers, payments are settled once a day, and generally take one to two days to settle, depending on which decentralized clearing center is used and where the payment is going. According to a government decree, a payment may not take more than 5 days. The average daily number of payments of only 1300 and the average payment size of som 42000 reflect the fact that the system is almost only used for professional business-to-business payments, and that personal checks and paperless transfers between individuals are very rare. Only banks (and their branches) are allowed to participate in the system. If a bank does not have sufficient liquidity to settle its payments, the (multilateral) netting will be frozen and a new attempt will be made the next day. The NBKR is working to establish procedures to avoid having to assume the liability in case the attempt to settle fails.

7. A large value payments system has also been established. This system is based on physical payment orders which are entered into the NBKR's real time book keeping system individually, i.e. it is a gross settlement system. The NBKR does not provide intraday liquidity in the system, and only about 10 transactions take place every day. All legal entities, having an account with the NBKR, and having agreed to the terms and conditions of participation, are allowed to participate in the system.

Table 2. Kyrgyz Republic: GDP by Expenditure and Income Categories, 1994-97

	1994	1995	1996	1997
	(In millions of soms; at current prices)			
GDP at factor cost	11,279.1	14,960.8	21,786.5	28,329.9
Plus taxes net of subsidies	740.1	1,184.3	1,612.8	2,355.8
GDP	12,019.2	16,145.1	23,399.3	30,685.7
Final consumption	11,693.9	15,265.1	23,544.9	26,458.2
Private consumption	9,421.8	12,110.6	19,211.8	21,150.9
Households	9,066.1	11,761.7	18,703.2	20,559.4
NPISHs	355.7	348.9	508.6	591.5
Government consumption	2,272.2	3,154.4	4,333.1	5,307.3
Individual	1,217.8	1,781.6	2,058.8	2,559.6
Collective	1,054.4	1,372.8	2,274.3	2,747.7
Gross fixed capital formation	1,450.7	3,290.0	5,243.5	3,802.0
Changes in inventories	-409.3	-376.8	600.0	2,781.2
Net exports	-758.0	-2,081.1	-6,041.6	-2,425.2
Exports	4,057.9	4,757.5	7,192.5	11,748.6
Imports	-4,815.9	-6,838.6	-13,234.1	-14,173.8
Total income by category	12,019.2	16,145.1	23,399.3	30,685.7
Compensation of employees	4,096.4	6,104.0	7,853.9	9,874.3
Taxes on production	1,178.9	1,795.2	2,432.3	3,351.1
Subsidies	61.2	165.9	200.2	153.5
Gross operating surplus of enterprises	6,805.1	8,411.8	13,313.2	17,613.8
		(In percent of GDP)		
GDP	100.0	100.0	100.0	100.0
Final consumption	97.3	94.5	100.6	86.2
Private consumption	78.4	75.0	82.1	68.9
Households	75.4	72.8	79.9	67.0
NPISHs	3.0	2.2	2.2	1.9
Government consumption	18.9	19.5	18.5	17.3
Individual	10.1	11.0	8.8	8.3
Collective	8.8	8.5	9.7	9.0
Gross fixed capital formation	12.1	20.4	22.4	12.4
Changes in inventories	-3.4	-2.3	2.6	9.1
Net exports	-6.3	-12.9	-25.8	-7.9
Exports	33.8	29.5	30.7	38.3
Imports	-40.1	-42.4	-56.6	-46.2
Total income by category	100.0	100.0	100.0	100.0
Compensation of employees	34.1	37.8	33.6	32.2
Taxes on production	9.8	11.1	10.4	10.9
Subsidies	0.5	1.0	0.9	0.5
Gross operating surplus of enterprises	56.6	52.1	56.9	57.4

Source: National Statistical Committee.

Table 3. Kyrgyz Republic: GDP by Sectors of Origin, 1994-97

	1994	1995	1996	1997
	(In millions of soms; at current prices)			
GDP	12,019.2	16,145.1	23,399.3	30,685.7
Manufacturing	2,461.7	1,931.3	2,587.9	5,077.4
Construction	408.9	992.5	1,396.6	1,384.8
Forestry	9.8	16.6	18.1	23.6
Agriculture	4,601.3	6,551.5	10,820.2	12,615.1
Other commodity sectors	33.2	36.8	33.9	34.5
Transport and communication	331.6	313.8	1,071.5	1,289.7
Trade and catering	1,162.4	1,774.4	2,426.1	3,206.8
Procurement	10.5	7.6	5.6	12.7
Supplies	36.3	53.7	26.3	3.6
Information, computing services	4.5	8.9	7.4	6.5
Real estate	5.0	8.6	4.7	30.9
Commerce	22.7	56.8	88.4	193.2
Geological services	15.2	40.1	44.1	68.3
Market services	91.2	200.9	917.2	1,393.9
Banking services	576.9	581.9	150.1	313.9
Non-market services	1,292.3	1,967.5	2,188.4	2,675.0
Taxes on products	740.1	1,184.3	1,612.8	2,355.8
		(In percent of GDP)		
GDP	100.0	100.0	100.0	100.0
Manufacturing	20.5	12.0	11.1	16.5
Construction	3.4	6.1	6.0	4.5
Forestry	0.1	0.1	0.1	0.1
Agriculture	38.3	40.6	46.2	41.1
Other commodity sectors	0.3	0.2	0.1	0.1
Transport and communication	2.8	1.9	4.6	4.2
Trade and catering	9.7	11.0	10.4	10.5
Procurement	0.1	0.0	0.0	0.0
Supplies	0.3	0.3	0.1	0.0
Information, computing services	0.0	0.1	0.0	0.0
Real estate	0.0	0.1	0.0	0.1
Commerce	0.2	0.4	0.4	0.6
Geological services	0.1	0.2	0.2	0.2
Market services	0.8	1.2	3.9	4.5
Banking services	4.8	3.6	0.6	1.0
Non-market services	10.8	12.2	9.4	8.7
Taxes on products	6.2	7.3	6.9	7.7

Sources: National Statistical Commitee; and Fund staff estimates.

Table 4. Kyrgyz Republic: Agricultural Production by Farm Type, 1994-98

	1994			1995			1996			1997			1998 (First half)		
	State 1/	Farmers	Households	State 1/	Farmers	Households	State 1/	Farmers	Households	State 1/	Farmers	Households	State	Farmers	Households
	(In thousands of tons)														
Grains	874.9	109.4	78.2	620.0	258.5	102.7	702.5	572.7	148.5	726.9	835.3	172.5	580.7	778.4	142.0
Wheat	537.4	55.2	15.8	464.6	175.4	37.0	566.0	419.6	54.9	605.8	697.7	70.5	479.1	655.7	76.0
Barley	257.6	47.9	4.5	117.7	49.8	5.8	97.1	77.1	8.5	91.7	66.7	7.5	85.9	72.3	5.0
Corn	65.8	6.1	57.4	28.4	29.9	57.7	32.6	68.2	81.3	22.6	58.6	89.4	0.2	0.9	1.2
Rice	4.2	0.1	0.1	3.6	2.4	1.6	2.5	5.7	2.4	2.6	7.1	2.6	...	...	0.1
Cotton	52.0	1.5	...	54.2	20.3	...	38.4	34.7	...	31.3	31.1	...	7.0	13.3	0.1
Sugarbeet	98.7	15.1	0.4	77.6	29.2	0.6	136.6	53.2	...	124.2	73.7	...	0.1	0.0	...
Tobacco	35.0	1.3	0.1	9.0	8.4	0.2	7.1	9.8	1.0	8.3	14.3	3.2	5.0	13.2	2.2
Vegetable oil crop	12.6	1.2	0.4	10.1	8.5	1.6	11.9	16.4	6.6	9.1	21.6	7.8	6.6	18.4	5.4
Potatoes	55.5	14.0	241.5	39.7	27.5	364.4	40.3	71.5	450.6	84.7	127.7	465.6	45.7	90.1	394.0
Vegetables	91.9	11.6	162.1	62.5	42.0	213.9	67.4	72.4	228.7	61.6	119.9	297.2	30.7	111.4	237.0
Melons	10.3	4.3	4.3	9.0	11.1	3.1	13.9	21.6	5.0	12.2	20.4	5.7	8.5	23.5	4.9
Fruits and berries	18.6	0.2	60.3	13.2	1.7	52.4	19.1	8.0	55.7	20.9	13.9	75.9	3.4	3.9	44.7
Grapes	13.8	...	3.8	13.1	0.9	5.7	6.5	1.4	6.4	10.4	1.8	10.5	4.0	0.8	7.6
Hay	523.8	221.8	111.1	377.3	333.8	195.6	321.0	515.6	119.2	259.6	525.2	114.6	...	...	...
Forage	1,849.5	3.0	72.2	993.4	5.5	10.7	698.3	10.7	25.0	559.6	21.3	21.6	...	...	...
	(Distribution by product type; in percent of total)														
Grains	82.3	10.3	7.4	63.2	26.3	10.5	49.3	40.2	10.4	41.9	48.2	9.9	38.7	51.9	9.5
Wheat	88.3	9.1	2.6	68.6	25.9	5.5	54.4	40.3	5.3	44.1	50.8	5.1	39.6	54.2	6.3
Barley	83.1	15.5	1.5	67.9	28.7	3.3	53.1	42.2	4.7	55.3	40.2	4.5	52.6	44.3	3.1
Corn	50.9	4.7	44.4	24.5	25.8	49.7	17.9	37.5	44.6	13.2	34.3	52.4	10.3	38.5	51.3
Rice	96.1	1.8	2.1	47.4	31.6	21.1	23.6	53.8	22.6	21.3	57.5	21.2	...	...	100.0
Cotton	97.2	2.8	...	72.8	27.2	...	52.5	47.5	...	50.2	49.8	...	34.4	65.4	0.2
Sugarbeet	86.4	13.2	0.4	72.3	27.2	0.6	72.0	28.0	...	62.8	37.2	...	83.3	16.7	...
Tobacco	96.2	3.6	0.2	51.1	47.7	1.1	39.7	54.7	5.6	32.1	55.6	12.4	24.5	64.7	10.8
Vegetable oil crop	88.7	8.5	2.8	50.0	42.1	7.9	34.1	47.0	18.9	23.7	56.0	20.3	21.7	60.5	17.8
Potatoes	17.8	4.5	77.7	9.2	6.4	84.4	7.2	12.7	80.1	12.5	18.8	68.7	8.6	17.0	74.4
Vegetables	34.6	4.4	61.0	19.6	13.2	67.2	18.3	19.6	62.1	12.9	25.1	62.1	8.1	29.4	62.5
Melons	54.5	22.8	22.8	38.8	47.8	13.4	34.3	53.3	12.3	31.8	53.3	14.9	23.0	63.7	13.3
Fruits and berries	23.5	0.3	76.2	19.6	2.5	77.9	23.1	9.7	67.3	18.9	12.5	68.6	6.5	7.5	86.0
Grapes	78.4	...	21.6	66.5	4.6	28.9	45.5	9.8	44.8	45.7	8.1	46.2	32.3	6.5	61.3
Hay	61.1	25.9	13.0	41.6	36.8	21.6	33.6	53.9	12.5	28.9	58.4	12.7	...	...	...
Forage	96.1	0.2	3.8	98.4	0.5	1.1	95.1	1.5	3.4	92.9	3.5	3.6	...	...	...

Sources: National Statistical Commitee; and Fund staff estimates.
1/ State includes collective farms.

Table 5. Kyrgyz Republic: Production of Animal Products by Farm Type, 1994-98

	Total	State	Farmers	Households	Total	State	Farmers	Households
	(In thousands of tons, except where otherwise noted)				(In percent of total)			
1994 Live weight	358.0	83.5	46.6	227.9	100.0	23.3	13.0	63.7
Slaughtered weight	197.2	45.4	24.8	127.0	100.0	23.0	12.6	64.4
Beef	82.3	22.1	8.5	51.7	100.0	26.9	10.3	62.8
Pork	18.0	3.1	1.5	13.4	100.0	17.2	8.3	74.4
Sheep	76.4	16.1	11.6	48.7	100.0	21.1	15.2	63.7
Chicken	7.2	1.2	0.6	5.4	100.0	16.7	8.3	75.0
Horse	12.7	2.9	2.6	7.2	100.0	22.8	20.5	56.7
Rabbits	0.6	...	...	0.6	100.0	...	...	100.0
Milk	871.6	194.9	39.4	637.3	100.0	22.4	4.5	73.1
Eggs (millions)	201.6	41.8	2.4	157.4	100.0	20.7	1.2	78.1
Wool	21.2	7.5	2.6	11.1	100.0	35.4	12.3	52.4
1995 Live weight	321.4	47.3	41.7	232.4	100.0	14.7	13.0	72.3
Slaughtered weight	179.9	26.1	21.9	131.9	100.0	14.5	12.2	73.3
Beef	84.7	14.8	8.4	61.5	100.0	17.5	9.9	72.6
Pork	27.9	1.7	0.2	26.0	100.0	6.1	0.7	93.2
Sheep	54.1	7.4	9.4	37.3	100.0	13.7	17.4	68.9
Chicken	2.7	0.2	0.1	2.4	100.0	7.4	3.7	88.9
Horse	10.2	2.0	3.8	4.4	100.0	19.6	37.3	43.1
Rabbits	0.3	...	...	0.3	100.0	...	...	100.0
Milk	864.2	110.4	101.4	652.4	100.0	12.8	11.7	75.5
Eggs (millions)	146.7	6.9	6.9	132.9	100.0	4.7	4.7	90.6
Wool	14.8	2.8	2.5	9.5	100.0	18.9	16.9	64.2
1996 1/ Live weight	323.4	25.8	69.6	228.0	100.0	8.0	21.5	70.5
Slaughtered weight	185.5	14.6	38.0	132.9	100.0	7.9	20.5	71.6
Beef	86.3	8.5	18.3	59.5	100.0	9.8	21.2	68.9
Pork	28.7	1.2	0.5	27.0	100.0	4.2	1.7	94.1
Sheep	54.2	3.4	13.1	37.7	100.0	6.3	24.2	69.6
Chicken	3.0	0.1	0.2	2.7	100.0	3.3	6.7	90.0
Horse	13.1	1.4	5.9	5.8	100.0	10.7	45.0	44.3
Rabbits	0.2	..	...	0.2	100.0	...	...	100.0
Milk	885.3	63.1	170.2	652.0	100.0	7.1	19.2	73.6
Eggs (millions)	159.6	1.3	17.4	140.9	100.0	0.8	10.9	88.3
Wool	12.3	1.2	3.5	7.6	100.0	9.8	28.6	61.6
1997 Live weight	323.4	11.6	69.9	241.9	100.0	3.6	21.6	74.8
Slaughtered weight	185.9	6.6	38.3	141.0	100.0	3.6	20.6	75.8
Beef	95.1	4.0	18.7	72.4	100.0	4.2	19.7	76.1
Pork	25.6	0.5	0.5	24.6	100.0	2.0	2.0	96.1
Sheep	43.7	1.2	12.6	29.9	100.0	2.7	28.8	68.4
Chicken	3.1	0.1	0.2	2.8	100.0	3.2	6.5	90.3
Horse	18.2	0.8	6.3	11.1	100.0	4.4	34.6	61.0
Rabbits	0.2	...	...	0.2	100.0	...	...	100.0
Milk	911.5	61.5	199.3	650.7	100.0	6.7	21.9	71.4
Eggs (millions)	163.9	2.1	22.0	139.8	100.0	1.3	13.4	85.3
Wool	11.4	0.6	3.0	7.8	100.0	5.3	26.3	68.4
1998 2/ Live weight	128.7	5.0	30.4	93.3	100.0	3.9	23.6	72.5
Slaughtered weight	87.3	3.5	20.1	63.7	100.0	4.0	23.0	73.0
Beef	44.6	2.1	9.8	32.7	100.0	4.7	22.0	73.3
Pork	11.7	0.3	0.3	11.1	100.0	2.6	2.6	94.9
Sheep	20.7	0.6	6.6	13.5	100.0	2.9	31.9	65.2
Chicken	1.4	0.1	0.1	1.2	100.0	7.1	7.1	85.7
Horse	8.7	0.4	3.3	5.0	100.0	4.6	37.9	57.5
Rabbits	0.2	...	...	0.2	100.0	...	...	100.0
Milk	398.9	27.7	103.5	267.7	100.0	6.9	25.9	67.1
Eggs (millions)	79.2	1.7	12.8	64.7	100.0	2.1	16.2	81.7
Wool	9.5	0.3	2.8	6.4	100.0	3.2	29.5	67.4

Sources: National Statistical Committee; and Fund staff estimates.

1/ After 1996, data for state includes collective farms. Prior to 1996, there was no accounting distinction between types of ownership.

2/ January - June.

Table 6. Kyrgyz Republic: Agricultural Production, 1994-98

	1994	1995	1996	1997	1998 QI-QII
	(In thousands of tons, except when otherwise noted)				
Grains	1,062.6	981.2	1,423.7	1,734.7	1,501.1
Wheat	608.4	677.0	1,040.5	1,374.0	1,210.8
Barley	309.6	1,173.3	182.8	165.9	163.2
Corn	129.3	116.1	182.2	170.6	2.3
Rice	4.3	7.6	10.5	12.4	0.1
Cotton	53.5	74.5	73.1	62.4	20.4
Sugarbeet	114.2	107.4	189.8	205.5	0.1
Tobacco	36.4	17.6	17.9	25.7	20.4
Vegetable oil crop	14.2	20.1	34.9	38.5	30.4
Potatoes	310.9	431.6	562.4	678.0	529.8
Vegetables	265.6	318.4	368.5	478.7	379.1
Melons	18.9	23.3	40.5	38.3	36.9
Fruits and berries	79.1	67.3	82.7	110.7	52.0
Grapes	17.6	19.7	14.3	22.8	12.4
Hay	856.8	906.8	955.8	899.4	...
Forage	1,924.7	1,009.6	734.0	602.6	...
Meat (slaughtered)	197.2	179.9	185.5	185.9	73.4
Milk	871.6	864.2	882.3	911.5	398.9
Eggs (millions)	201.6	146.7	159.4	163.9	79.2
Wool	21.2	14.8	12.2	11.4	9.5
	(Percentage change from previous year)				
Grains	-33.4	-7.7	45.1	21.8	...
Wheat	-31.3	11.3	53.7	32.1	...
Barley	-39.2	279.0	-84.4	-9.3	...
Corn	-29.7	-10.2	56.9	-6.4	...
Rice	59.3	76.7	38.2	17.9	...
Cotton	8.7	39.3	-1.9	-14.6	...
Sugarbeet	-48.1	-6.0	76.7	8.3	...
Tobacco	-25.1	-51.6	1.7	43.8	...
Vegetable oil crop	97.2	41.5	73.6	10.2	...
Potatoes	0.8	38.8	30.3	20.6	...
Vegetables	2.4	19.9	15.7	29.9	...
Melons	1.6	23.3	73.8	-5.5	...
Fruits and berries	75.4	-14.9	22.9	33.8	...
Grapes	91.3	11.9	-27.4	59.1	...
Hay	-9.2	5.8	5.4	-5.9	...
Forage	-29.1	-47.5	-27.3	-17.9	...
Meat (slaughtered)	-8.0	-8.8	3.1	0.2	...
Milk	-7.9	-0.8	2.1	3.3	...
Eggs	-48.2	-27.2	8.7	2.8	...
Wool	-32.1	-30.2	-17.6	-6.6	...

Source: National Statistical Committee.

Table 7. Kyrgyz Republic: Yields of Major Commodities, 1994-98
(100 Kilogram per hectare)

	1994	1995	1996	1997	1998 QI-QII
Grains	18.1	19.5	24.3	26.0	26.8
Wheat	18.3	19.9	24.0	25.6	26.4
Barley	15.0	14.1	18.4	20.5	23.2
Corn	35.3	37.4	43.2	45.9	48.5
Rice	14.2	17.5	20.1	20.4	25.5
Cotton	20.2	22.4	23.1	25.1	...
Sugarbeet	116.2	123.1	152.1	180.7	191.8
Tobacco	19.2	20.8	21.1	21.3	...
Vegetable oil	4.7	4.6	5.3	7.0	8.4
Potatoes	90.0	99.0	114.0	121.0	124.0
Vegetables	115.0	103.0	113.0	132.0	...
Melons	72.0	65.0	83.0	121.0	...
Fruits and berries	20.1	21.1	24.1	27.1	...
Grapes	25.6	29.6	22.4	31.3	...
Hay	42.8	42.6	45.3	49.1	...
Forage	163.9	139.3	150.8	...	...

Source: National Statistical Committee.

Table 8. Kyrgyz Republic: Industrial Production by Sector, 1994-98
(Percent change)

	1994	1995	1996	1997	1998
All industry	-23.5	-36.9	3.9	39.7	4.6
Electricity	...	...	10.1	-9.7	-7.7
Fuel industry	...	...	37.4	300.2	-17.9
Ferrous and nonferrous metallurgy	...	...	2.8	288.5	22.3
Chemicals and petrochemical industry	...	...	-1.8	3.7	-21.2
Machine building and metalworking	...	...	3.4	-14.1	-1.2
Forestry, woodworking, pulp and paper industry	...	...	-38.6	49.8	-16.3
Construction materials	...	...	1.4	21.9	0.1
Light industry	...	...	-4.9	-13.5	-33.7
Textiles	...	...	...	-14.8	-34.0
Clothing	...	...	...	-13.1	-14.5
Leather and shoe	...	...	...	-26.4	-51.4
Agriculture/food processing	...	...	-0.9	3.0	11.6
Dairy products	...	...	...	27.1	8.0

Source: Kyrgyz authorities.

Table 9. Kyrgyz Republic: Output of Selected Industrial and Manufacturing Products, 1994-98

	1994	1995	1996	1997	1998 QI-QIII
Coal (thousand tons)	848	463	410	522	247
Oil (including condensate) (thousand tons)	88	89	84	85	58
Natural gas (million m3)	39	36	26	24	13
Electric engines (AC) (thousand)	60	49	44	27	13
Steel-cutting machines (units)	69	27	17	44	...
Stamping machines (units)	1	0	2	10	...
Centrifugal pumps (thousand)	25	12	7	5	2
Trucks (thousand)	206	8	1	12	0
Hay-compacting machines (thousand)	642	201	17	0	0
Cement (thousand tons)	426	310	546	658	579
Window glass (million m2)	4	2	3	2	1
Roofing sheets (millions of pieces)	136	66	102	129	108
Rugs (thousand m2)	1,083	979	768	326	...
Textiles (thousand m2)	62,107	23,163	29,253	25,191	11,695
Knitted fabrics (thousand pieces)	4,539	1,512	745	1,119	1
Shoes (thousand pairs)	1,650	755	605	436	155
Stockings and socks (thousand pairs)	15,257	8,822	12,601	7,489	4,341
Washing machines (thousand)	17	4	3	2	0
Light bulbs (millions)	84	138	157	180	139

Source: National Statistical Committee.

Table 10. Kyrgyz Republic: Consumer and Producer Prices, 1994-98

		Consumer Price Index		Producer Price Index	
		Percent change	Index (1994=100)	Percent change	Index (1994=100)
1994	**Average 1/**	**208.0**	**100.0**	**196.7**	**100.0**
1995	January	5.6	124.3	9.4	127.0
	February	6.5	132.4	6.1	134.8
	March	1.1	133.8	0.2	135.0
	April	1.2	135.5	1.0	136.3
	May	0.8	136.5	-1.7	134.0
	June	1.0	137.9	1.4	135.9
	July	2.3	141.1	0.2	136.2
	August	2.4	144.5	0.6	137.0
	September	2.3	147.8	2.8	140.8
	October	0.0	147.8	1.1	142.4
	November	1.9	150.6	1.1	143.9
	December	3.4	155.7	2.4	147.4
	Average 1/	**40.7**	**140.7**	**37.6**	**137.6**
1996	January	3.6	161.3	5.2	155.1
	February	3.8	167.4	-0.1	155.0
	March	4.0	174.1	1.3	157.0
	April	4.6	182.1	0.2	157.3
	May	2.5	186.6	3.4	162.7
	June	1.0	188.5	6.6	173.4
	July	-2.1	184.6	1.3	175.5
	August	0.5	185.5	-0.3	175.0
	September	0.5	186.5	6.2	185.8
	October	1.2	188.7	0.7	187.0
	November	6.6	201.1	3.0	192.6
	December	4.5	210.1	6.7	205.5
	Average 1/	**31.3**	**184.7**	**26.1**	**173.5**
1997	January	3.4	217.2	4.8	215.3
	February	2.2	222.0	2.0	219.6
	March	1.4	225.2	3.3	226.9
	April	2.5	230.8	-0.7	225.3
	May	2.7	237.0	-1.1	222.9
	June	0.7	238.8	2.4	228.1
	July	-1.2	235.9	-2.1	223.4
	August	-1.8	231.7	1.2	226.1
	September	0.1	231.9	-0.2	225.6
	October	0.5	233.1	1.8	229.5
	November	2.1	238.0	-1.5	226.1
	December	1.3	241.1	4.4	235.9
	Average 1/	**25.5**	**231.9**	**29.0**	**225.4**
1998	January	2.4	246.9	1.8	240.1
	February	1.2	249.8	-1.0	237.7
	March	1.2	252.8	1.1	240.3
	April	0.8	254.8	4.6	251.2
	May	2.9	262.2	-0.8	249.1
	June	2.0	267.5	1.2	252.0
	July	-3.2	258.9	-2.0	247.0
	August	-1.8	254.3	-1.2	244.0
	September	0.2	254.8	0.2	244.6
	October	1.2	257.8	3.4	252.9
	November	6.2	273.8	...	...
	December	4.2	285.3	...	...
	Average 1/	**12.1**	**259.9**	...	...

Sources: National Statistical Committee; and Fund staff estimates.
1/ Year-on-year averages.

Table 11. Kyrgyz Republic: Nominal and Real Wages, 1994-98

	Nominal wages (som) 1/		Index of real wages (1994=100)	
	Average	Minimum	Average	Minimum
1994 Average 2/	**234.2**	**57.0**	**100.0**	**100.0**
Average 3/	**233.4**	...	**100.0**	...
1995 January	319.0	68.0	109.6	96.0
February	331.0	68.0	106.8	90.1
March	351.5	68.0	112.1	89.1
April	342.2	68.0	107.9	88.1
May	357.1	68.0	111.7	87.4
June	393.7	68.0	121.9	86.5
June	380.6	68.0	115.2	84.6
August	386.0	68.0	114.1	82.6
September	408.2	68.0	117.9	80.7
October	409.2	68.0	118.2	80.7
November	431.6	75.0	122.4	87.4
December	573.4	75.0	157.2	84.5
Average 2/	**390.3**	**69.2**	**117.9**	**86.5**
Average 3/	**368.2**	...	**112.1**	...
1996 January	423.5	75.0	112.1	81.6
February	423.9	75.0	108.1	78.6
March	458.1	75.0	112.4	81.6
April	449.3	75.0	105.3	78.6
May	458.2	75.0	104.8	75.6
June	483.7	75.0	109.6	72.3
July	495.8	75.0	114.7	70.5
August	496.1	75.0	114.2	69.8
September	504.6	75.0	115.5	71.3
October	519.2	75.0	117.5	70.9
November	523.0	75.0	111.0	70.6
December	689.7	75.0	140.1	69.7
Average 2/	**493.7**	**75.0**	**113.8**	**74.2**
Average 3/	**490.9**	...	**113.9**	...
1997 January	522.3	75.0	102.7	65.4
February	539.0	75.0	103.7	62.6
March	559.2	75.0	106.0	60.6
April	558.4	75.0	103.3	59.3
May	567.4	75.0	102.2	60.6
June	616.8	75.0	110.3	59.3
July	637.5	90.0	115.4	70.1
August	645.6	90.0	119.0	68.4
September	650.5	90.0	119.8	66.6
October	680.5	90.0	124.7	66.1
November	669.2	90.0	120.1	66.9
December	893.1	90.0	158.2	68.1
Average 2/	**628.3**	**82.5**	**115.4**	**64.5**
Average 3/	**680.2**	...	**125.7**	...
1998 January	665.1	100.0	115.0	75.6
February	700.1	100.0	119.7	75.3
March	746.2	100.0	126.0	73.7
April	744.2	100.0	124.7	72.8
May	749.7	100.0	122.1	71.1
June	799.7	100.0	127.7	70.2
July	822.0	100.0	135.6	71.1
August	799.5	100.0	134.3	70.2
September	791.3	100.0	132.7	69.4
October	811.0	100.0	134.3	68.8
November	811.0	100.0	126.5	
December	1,082.0	100.0	162.0	
Average 2/	**793.5**	**100.0**		
Average 3/	...	...		

Sources: Kyrgyz authorities; and Fund staff estimates.

1/ The December average wage reflects year-end bonus, typically one month's wage.

2/ Based on the monthly wage statistics.

3/ Based on annual wage statistics with a broarder coverage of the sectors than the monthly statistics, especially with respect to agriculture.

Table 12. Kyrgyz Republic: Average Wages by Economic Sector, 1994-98
(As a percent of total average wage)

	1994	1995	1996	1997	1998 QI-QIII
Average wage	100.0	100.0	100.0	100.0	100.0
Industry	158.1	155.2	150.3	173.8	152.2
Of which					
Agriculture	47.9	41.3	51.9	54.7	57.7
Of which					
State and co-operative farms	46.7	39.8	47.4	49.6	...
Forestry	52.1	42.6	48.6	46.6	44.0
Transport	118.6	119.3	116.8	112.5	131.7
Communication	172.3	166.9	148.5	145.5	177.2
Construction	146.2	158.5	158.6	140.6	157.6
Trade and communal catering	76.0	71.4	69.9	77.8	55.9
Supplies	175.7	133.2	128.6	118.5	111.9
Procurement	78.8	97.3	105.9	85.7	54.5
Computing services	140.8	121.8	137.6	139.5	209.0
Real estate	77.5	137.0	106.3	78.7	135.2
Commerce	68.3	84.5	116.6	118.0	193.8
Geology, meterology	195.3	175.0	181.5	169.3	161.9
Other sectors of material production	92.0	87.5	78.6	76.9	81.2
Housing and communal services	99.2	104.5	99.7	95.8	101.1
Health and physical welfare services	92.2	79.2	66.3	56.6	65.6
Education	102.0	84.0	70.9	61.0	59.7
Culture	87.8	81.2	65.0	57.9	65.6
Art	90.1	82.2	65.9	53.3	...
Science and scientific services	122.6	121.0	112.1	114.4	123.2
Banking and insurance services	258.0	206.8	189.5	283.8	288.6
Government	133.0	126.7	141.0	131.5	132.9
Memorandum items:					
Minimum monthly wage	24.4	18.8	15.3	12.1	...
Average pension, year end	62.9	53.5	50.3	45.1	...

Sources: Kyrgyz authorities; and Fund staff estimates.

Table 13. Kyrgyz Republic: Employment by Sector, 1994-97

	1994	1995	1996	1997
	(In thousands of workers)			
Total employment	1,645.4	1,641.7	1,651.5	1,689.3
Industry	241.2	205.0	182.8	171.6
Construction	77.1	65.7	57.9	57.0
Agriculture	684.7	771.0	773.5	810.8
Forestry	6.1	5.4	5.1	4.8
Transport	71.3	62.7	67.5	66.6
Communication	13.2	13.7	13.7	12.6
Retail trade and catering	113.1	103.8	145.0	172.4
Information and computational services	1.4	1.3	1.0	0.8
Housing and communal services	32.6	27.7	24.7	23.3
Health and physical welfare services	102.1	101.3	93.9	94.2
Education	169.2	155.9	138.9	139.4
Culture and art	16.4	14.0	12.7	12.9
Science and scientific services	8.5	6.9	6.9	6.3
Insurance services	7.8	6.9	9.1	7.1
General administration and defense	54.1	59.6	62.2	60.3
Other	46.6	40.8	56.6	49.2
	(As percent of total employment)			
Industry	14.7	12.5	11.1	10.2
Construction	4.7	4.0	3.5	3.4
Agriculture	41.6	47.0	46.8	48.0
Forestry	0.4	0.3	0.3	0.3
Transport	4.3	3.8	4.1	3.9
Communication	0.8	0.8	0.8	0.7
Retail trade and catering	6.9	6.3	8.8	10.2
Information and computational services	0.1	0.1	0.1	0.0
Housing and communal services	2.0	1.7	1.5	1.4
Health and physical welfare services				
Education	6.2	6.2	5.7	5.6
Culture and art	10.3	9.5	8.4	8.3
Science and scientific services	1.0	0.9	0.8	0.8
Insurance services	0.5	0.4	0.4	0.4
General administration and defense	0.5	0.4	0.6	0.4
Other	3.3	3.6	3.8	3.6

Sources: Kyrgyz authorities; and Fund staff estimates.

Table 14. Kyrgyz Republic: Privatization by Type of Property, 1994-98
(End-of-period)

	Initial stock	1994	1995	1996	1997	1998 Q1 - QII
	(Numbers of enterprises sold; cumulative)					
Industry	602	324	462	483	531	532
Competitive bidding		5	9	12	12	12
Sale to individual		9	18	18	18	19
Lease with option to buy		7	7	8	8	8
Formation of joint-stock company		237	338	352	400	399
Auction sales		6	15	16	16	16
Sale to labor collectives		38	48	49	49	49
Formation of limited liability company		22	26	27	27	28
Other methods		0	1	1	1	1
Consumer services	1,919	1,878	1,899	1,913	1,917	1,924
Competitive bidding		524	526	529	529	529
Sale to individual		696	706	713	717	725
Lease with option to buy		13	14	16	17	17
Formation of joint-stock company		33	35	36	36	36
Auction sales		161	168	171	170	170
Formation of limited liability company		8	8	8	8	9
Sale to labor collectives		443	442	440	440	438
Other methods		0	0	0	0	0
Nonproductive sphere	1,253	218	416	428	434	439
Competitive bidding		4	5	8	8	9
Sale to individual		17	32	37	41	41
Lease with option to buy		1	1	2	2	3
Formation of joint-stock company		117	281	280	277	277
Auction sales		12	26	29	30	32
Formation of limited liability company		45	46	46	48	48
Sale to labor collectives		22	25	26	28	29
Other methods		0	0	0	0	0
Trade and catering	1,945	1,756	1,801	1,887	1,894	1,895
Competitive bidding		538	543	578	581	581
Sale to individual		271	290	300	307	307
Lease with option to buy		39	39	41	41	42
Formation of joint-stock company		209	212	214	213	213
Formation of limited liability company		49	49	51	52	51
Auction sales		106	120	154	151	152
Sale to labor collectives		544	548	549	549	549
Other methods		0	0	0		
Agriculture	855	319	342	343	354	354
Competitive bidding		1	1	1	1	1
Sale to individual		21	27	30	30	30
Lease with option to buy		3	3	3	4	4
Formation of joint-stock company		119	126	118	128	128
Formation of limited liability company		6	8	8	8	8
Auction sales		1	3	6	6	6
Sale to labor collectives		168	174	177	177	177
Other methods		0	0	0	0	0
Construction	730	307	390	413	418	418
Competitive bidding		1	3	3	3	3
Sale to individual		7	10	13	13	13
Lease with option to buy		2	2	2	2	2
Formation of joint-stock company		213	279	293	298	298
Formation of limited liability company		17	21	23	22	22
Auction sales		2	7	11	11	11
Sale to labor collectives		65	68	68	69	69
Other methods		0	0	0		
Transport	295	102	136	141	154	162
Competitive bidding		0	0	0	11	0
Sale to individual		2	2	3	0	3
Lease with option to buy		0	0	0	0	0
Formation of joint-stock company		88	121	125	137	141
Formation of limited liability company		5	5	4	3	5
Sale to labor collectives		7	8	9	0	13
Other methods		0	0	0	3	0
Other branches	2,390	264	449	596	673	729
Competitive bidding		19	21	28	28	42
Sale to individual		49	131	165	171	177
Lease with option to buy		2	9	23	24	28
Formation of limited liability company		15	17	23	28	29
Formation of joint-stock company		46	54	91	151	163
Auction sales		7	52	82	77	89
Sale to labor collectives		126	165	184	193	200
Other methods		0	0	0	1	1
Total 1/	9,989	5,168	5,895	6,204	6,375	6,453

Source: Kyrgyz authorities.

1/ Excluding privatized housing.

Table 15. Kyrgyz Republic: Summary of State Government Operations, 1994-98

	1994	1995	1996	1997					1998		
				QI	QII	QIII	QIV	Annual	QI Prel.	QII Prel.	QIII Prel.
				(In million of Kyrgyz soms)							
Total revenue and grants	2,503	2,703	3,728	924	996	1,247	1,806	4,973	1,276	1,431	1,625
Total revenue	2,201	2,648	3,527	825	996	1,231	1,726	4,778	1,276	1,347	1,625
Current revenue	2,148	2,599	3,233	822	996	1,228	1,606	4,652	1,276	1,338	1,559
Tax revenue	1,638	2,423	2,968	708	805	966	1,369	3,847	1,090	1,097	1,259
Tax revenue	653	713	669	172	163	157	192	685	249	193	198
VAT	519	705	1,250	255	342	494	641	1,733	452	484	515
Customs and excise	218	432	452	121	143	182	250	696	199	239	307
Land tax	58	73	122	31	37	76	134	278	51	29	74
Road tax and Emergency Fund 1/	62	217	239	65	72	84	99	319	94	105	116
Other 2/	129	282	236	64	47	-27	52	136	45	46	49
Nontax revenue	509	176	265	114	191	262	237	805	186	241	300
Capital revenue	53	49	293	4	0	3	120	126	0	9	66
Grants	303	55	201	99	0	17	79	195	0	84	0
Total expenditure (include PIP)	3,900	5,358	5,923	1,465	1,678	1,898	2,671	7,711	1,882	2,438	2,246
Current expenditure	2,752	4,031	4,925	1,188	1,492	1,547	2,344	6,571	1,519	1,931	1,813
Wages 3/	960	1,528	1,682	367	556	446	697	2,065	498	615	589
Transfers 4/	818	1,119	1,098	149	236	258	427	1,070	201	217	288
Social Fund	77	91	293	71	85	87	203	446	83	58	65
Interest	24	68	284	106	147	122	145	520	122	180	184
Foreign interest	24	59	203	69	69	69	69	278	72	128	45
Domestic interest (including FINSAC)	0	9	81	36	77	52	76	242	50	52	139
Other	873	1,226	1,568	496	468	634	872	2,471	614	861	686
Net lending	563	556	101	54	17	1	-88	-17	3	-18	-24
Lending	...	...	282	75	84	91	275	524	8	13	21
Repayment	...	...	-182	-21	-67	-90	-362	-541	-5	-31	-45
Capital investment with PIP	586	771	897	222	169	351	415	1,157	360	525	457
Surplus(+) / deficit (-)	-1,397	-2,788	-2,232	-473	-753	-532	-1,005	-2,763	-667	-645	-777
Total financing	1,397	2,788	2,232	473	753	532	1,005	2,763	667	645	777
External financing	1,173	1,467	1,620	220	844	245	1,093	2,402	477	343	803
Public Investment Program	469	610	739	188	150	278	333	949	351	422	392
Disbursements (BOP support)	515	1,293	885	2	740	0	736	1,477	169	0	431
Turkish loan	189	143	102	72	0	9	35	115	0	0	0
Total amortization	0	-579	-188	-42	-42	-42	-42	-169	-68	-84	-29
Arrears and rescheduling	...	...	82	0	-4	0	32	28	24	5	8
Domestic financing	224	1,321	612	253	-91	287	-88	361	190	302	-27
NBKR, *of which:*	160	1,252	453	158	-181	283	-144	117	11	167	-24
Direct loans granted	208	1,002	600	93	-39	-248	-73	-268	0	0	0
Drawdown of budgetary deposits	-49	0	-147	98	-5	-32	67	128	-31	1	-6
Drawdown of counterpart funds 5/	...	250	1	-49	-222	270	-199	-200	25	165	-40
Commercial banks	64	70	22	63	66	-25	28	132	148	82	-72
Nonbank	0	0	22	18	18	28	27	91	19	20	57
Privitization receipts	0	0	116	14	6	0	2	22	11	34	12
Memorandum items:											
Fiscal savings	-302	-1,378	-1,491	-268	-496	-302	-658	-1,724	-243	-509	-254
German loan	0	0	0	10	0	9	9	27	5	6	10
Arrears (stock at end period) 6/	346	213	176	243	171	290	151	290	90	451	296
Education expenditure	704	1,051	1,228	236	389	306	544	1,475	322	365	447
Health expenditure	387	590	738	138	198	205	344	886	211	210	250
GDP	12,019	16,145	23,400	30,686	30,686	30,686	30,686	30,686	35,832	35,832	35,832

Table 15. Kyrgyz Republic: Summary of State Government Operations, 1994-98, (concluded)

	1994	1995	1996	1997					1998		
				QI	QII	QIII	QIV	Annual	QI Prel.	QII Prel.	QIII Prel.
				(In percent of GDP)							
Total revenue and grants	20.8	16.7	15.9	3.0	3.2	4.1	5.9	16.2	3.6	4.0	4.5
Total revenue	18.3	16.4	15.1	2.7	3.2	4.0	5.6	15.6	3.6	3.8	4.5
Current revenue	17.9	16.1	13.8	2.7	3.2	4.0	5.2	15.2	3.6	3.7	4.4
Tax revenue	13.6	15.0	12.7	2.3	2.6	3.1	4.5	12.5	3.0	3.1	3.5
Income tax	5.4	4.4	2.9	0.6	0.5	0.5	0.6	2.2	0.7	0.5	0.6
VAT	4.3	4.4	5.3	0.8	1.1	1.6	2.1	5.6	1.3	1.4	1.4
Customs and excise	1.8	2.7	1.9	0.4	0.5	0.6	0.8	2.3	0.6	0.7	0.9
Land tax	0.5	0.5	0.5	0.1	0.1	0.2	0.4	0.9	0.1	0.1	0.2
Road tax and Emergency Fund 1/	0.5	1.3	1.0	0.2	0.2	0.3	0.3	1.0	0.3	0.3	0.3
Other 2/	1.1	1.7	1.0	0.2	0.2	-0.1	0.2	0.4	0.1	0.1	0.1
Nontax revenue	4.2	1.1	1.1	0.4	0.6	0.9	0.8	2.6	0.5	0.7	0.8
Capital revenue	0.4	0.3	1.3	0.0	0.0	0.0	0.4	0.4	0.0	0.0	0.2
Grants	2.5	0.3	0.9	0.3	0.0	0.1	0.3	0.6	0.0	0.2	0.0
Total expenditure	32.4	33.2	25.3	4.8	5.5	6.2	8.7	25.1	5.3	6.8	6.3
Current expenditure	22.9	25.0	21.0	3.9	4.9	5.0	7.6	21.4	4.2	5.4	5.1
Wages 3/	8.0	9.5	7.2	1.2	1.8	1.5	2.3	6.7	1.4	1.7	1.6
Transfers 4/	6.8	6.9	4.7	0.5	0.8	0.8	1.4	3.5	0.6	0.6	0.8
Social Fund	0.6	0.6	1.3	0.2	0.3	0.3	0.7	1.5	0.2	0.2	0.2
Interest (including FINSAC)	0.2	0.4	1.2	0.3	0.5	0.4	0.5	1.7	0.3	0.5	0.5
Other	7.3	7.6	6.7	1.6	1.5	2.1	2.8	8.1	1.7	2.4	1.9
Net lending	4.7	3.4	0.4	0.2	0.1	0.0	-0.3	-0.1	0.0	0.0	-0.1
Capital investment	4.9	4.8	3.8	0.7	0.6	1.1	1.4	3.8	1.0	1.5	1.3
Surplus(+) / deficit (-)	-11.6	-17.3	-9.5	-1.5	-2.5	-1.7	-3.3	-9.0	-1.9	-1.8	-2.2
Total financing	11.6	17.3	9.5	1.5	2.5	1.7	3.3	9.0	1.9	1.8	2.2
External financing	9.8	9.1	6.9	0.7	2.8	0.8	3.6	7.8	1.3	1.0	2.2
Domestic financing	1.9	8.2	2.6	0.8	-0.3	0.9	-0.3	1.2	0.5	0.8	-0.1
Of which: Privatization revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.3
Memorandum items:											
Fiscal savings	-2.5	-8.5	-6.4	-0.9	-1.6	-1.0	-2.1	-5.6	-0.7	-1.4	-0.7
German loan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
German loan	1.6	0.0	0.1	0.2	0.2	0.5	0.0	0.1	0.0	0.1	0.3
Arrears (stock at end period) 6/	2.9	1.3	0.8	0.8	0.6	0.9	0.5	0.9	0.3	1.3	0.8
Education expenditure	5.9	6.5	5.2	0.8	1.3	1.0	1.8	4.8	0.9	1.0	1.2
Health expenditure	3.2	3.7	3.2	0.5	0.6	0.7	1.1	2.9	0.6	0.6	0.7

Sources: Data provided by the Kyrgyz authorities; and Fund staff estimates.

1/ Both turnover taxes.

2/ Includes right-to-trade and other small taxes on forest and water resources.

3/ Includes social contributions.

4/ Includes UCB, student stipends, military pensions and housing subsidies.

5/ In 1994, drawdown of counterpart funds and deposits are accounted together.

6/ Includes wage, transfers and pension arrears. The GDP ratio is calculated relative to the full calendar year GDP, in contrast to the other GDP ratios that are relative to that period's GDP.

Table 16. Kyrgyz Republic: State Government Revenues, 1994-98

	1994	1995	1996	1997					1998		
				QI	QII	QIII	QIV	Annual	QI Prel.	QII Prel.	QIII Prel.
	(In million of Kyrgyz soms)										
Total revenue and grants	2,503	2,703	3,728	924	996	1,247	1,806	4,973	1,276	1,421	1,636
Total revenue	2,201	2,648	3,527	825	996	1,231	1,726	4,778	1,276	1,347	1,625
Current revenue	2,148	2,599	3,233	822	996	1,228	1,606	4,652	1,276	1,338	1,559
Tax revenue	1,638	2,423	2,968	708	805	966	1,369	3,847	1,090	1,097	1,259
Income tax	653	713	669	172	163	157	192	685	249	193	198
Income tax	225	284	288	75	71	74	98	318	103	92	97
Profit tax	426	415	365	94	88	79	88	350	139	94	91
Domestic taxes on goods and services	887	1,491	2,037	474	565	788	1,083	2,910	774	815	964
VAT	519	705	1,250	255	342	494	641	1,733	452	484	515
Retail sales tax 1/	53	167	114	0	0	0	83	83	29	38	39
Excises	173	298	246	96	90	107	158	451	133	150	210
Right-to-trade	3	6	27	15	14	19	-39	9	1	1	0
Land tax	58	73	122	31	37	76	134	278	51	29	74
Road tax	62	77	80	22	25	29	32	107	30	31	36
Emergency Fund	0	140	159	43	47	55	67	212	64	75	80
Other 2/	20	24	39	13	9	8	6	36	15	8	11
Customs	46	134	206	26	53	75	92	245	66	89	96
Other 3/	53	84	56	36	24	-54	2	8	0	0	0
Nontax revenue	509	176	265	114	191	262	237	805	186	241	300
Government fees	38	69	81	26	35	11	28	101	25	30	31
Special resources	0	0	71	64	123	184	166	536	125	137	194
Arrears collection	0	60	28	36	24	-60	0	0	0	0	0
Other nontax revenue 4/	472	47	86	-12	9	127	44	168	36	73	75
Capital revenue	53	49	293	4	0	3	120	126	0	9	66
Grants	303	55	201	99	0	17	79	195	0	74	11
Memorandum item:											
Nominal GDP	12,019	16,145	23,400	4,462	5,772	10,602	9,850	30,686	5,654	6,604	12,387

Table 16. Kyrgyz Republic: State Government Revenues, 1994-98, (concluded)

	1994	1995	1996	1997					1998		
				QI	QII	QIII	QIV	Annual	QI Prel.	QII Prel.	QIII Prel.
				(In percent of GDP)							
Total revenue and grants	20.8	16.7	15.9	20.7	17.3	11.8	18.3	16.2	22.6	21.5	13.2
Tax revenue	13.6	15.0	12.7	15.9	13.9	9.1	13.9	12.5	19.3	16.6	10.2
Income taxes	5.4	4.4	2.9	3.9	2.8	1.5	2.0	2.2	4.4	2.9	1.6
Income tax	1.9	1.8	1.2	1.7	1.2	0.7	1.0	1.0	1.8	1.4	0.8
Profit tax	3.5	2.6	1.6	2.1	1.5	0.7	0.9	1.1	2.5	1.4	0.7
Domestic taxes on goods and services, *of which:*	7.4	9.2	8.7	10.6	9.8	7.4	11.0	9.5	13.7	12.3	7.8
VAT	4.3	4.4	5.3	5.7	5.9	4.7	6.5	5.6	8.0	7.3	4.2
Retail sales tax 1/	0.4	1.0	0.5	0.0	0.0	0.0	0.8	0.3	0.5	0.6	0.3
Excises	1.4	1.8	1.1	2.1	1.6	1.0	1.6	1.5	2.3	2.3	1.7
Customs	0.4	0.8	0.9	0.6	0.9	0.7	0.9	0.8	1.2	1.3	0.8
Other 2/	0.4	0.5	0.2	0.8	0.4	-0.5	0.0	0.0	0.0	0.0	0.0
Nontax revenue	4.2	1.1	1.1	2.5	3.3	2.5	2.4	2.6	3.3	3.6	2.4
Capital revenue	0.4	0.3	1.3	0.1	0.0	0.0	1.2	0.4	0.0	0.1	0.5
Grants	2.5	0.3	0.9	2.2	0.0	0.2	0.8	0.6	0.0	1.1	0.1
				(In percent of revenue)							
Total revenue and grants	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Tax revenue	65.5	89.7	79.6	76.6	80.8	77.4	75.8	77.4	85.4	77.2	76.9
Income taxes	26.1	26.4	17.9	18.6	16.4	12.6	10.7	13.8	19.5	13.6	12.1
Income tax	9.0	10.5	7.7	8.2	7.2	5.9	5.4	6.4	8.0	6.5	5.9
Profit tax	17.0	15.3	9.8	10.2	8.9	6.3	4.9	7.0	10.9	6.6	5.6
Domestic taxes on goods and services, *of which:*	35.4	55.2	54.6	51.3	56.7	63.2	60.0	58.5	60.7	57.3	59.0
VAT	20.7	26.1	33.5	27.6	34.4	39.6	35.5	34.8	35.4	34.0	31.5
Retail sales tax 1/	2.1	6.2	3.1	0.0	0.0	0.0	4.6	1.7	2.3	2.7	2.4
Excises	6.9	11.0	6.6	10.3	9.1	8.6	8.8	9.1	10.4	10.6	12.9
Customs	1.8	5.0	5.5	2.8	5.3	6.0	5.1	4.9	5.2	6.3	5.9
Other 2/	2.1	3.1	1.5	3.9	2.4	-4.3	0.1	0.2	0.0	0.0	0.0
Nontax revenue	20.4	6.5	7.1	12.3	19.2	21.0	13.1	16.2	14.6	16.9	18.3
Capital revenue	2.1	1.8	7.9	0.4	0.0	0.2	6.7	2.5	0.0	0.6	4.1
Grants	12.1	2.0	5.4	10.7	0.0	1.3	4.4	3.9	0.0	5.2	0.7

Sources: Data provided by the Kyrgyz authorities; and staff estimates.

1/ Abolished as of January 1997.

2/ Includes Mineral taxes, water fees and forest fees.

3/ Includes Social Protection tax in 1994, productive property tax.

4/ Includes automobile registration, penalties and sanctions.

Table 17. Kyrgyz Republic: State Government Expenditure by Functional Classification, 1994-98

	1994	1995	1996 1/	1997					1998		
				QI	QII	QIII	QIV	Year	QI Prel.	QII Prel.	QIII Prel.
	(In millions of soms)										
Total expenditures 2/	3,431	4,748	5,184	1,277	1,527	1,620	2,338	6,762	1,563	2,006	1,729
General public services	260	362	555	108	192	247	288	835	192	223	238
Defense	105	237	291	68	120	132	142	461	79	221	114
Public order and safety affairs	169	334	404	80	88	114	189	472	90	81	83
Education	704	1,051	1,228	236	389	306	544	1,475	...	365	447
Health	387	590	738	138	198	205	344	886	...	210	250
Social security and welfare affairs	367	899	885	143	199	196	0	1,059	161	178	268
Social insurance	337	796	799	129	169	162	0	876	138	127	190
Social security	30	104	86	14	30	34	104	182	23	51	78
Housing and community services	94	183	296	38	49	77	111	275	81	74	108
Recreational, cultural and religious activities	73	127	126	19	27	34	63	144	28	46	60
Energy complex (electricity production)	0	1	0	0	0	0	0	1	0	15	44
Agriculture, water resources, forestry	99	171	195	22	48	57	110	236	44	79	95
Mining and mineral resources	42	61	59	9	9	12	40	70	12	11	19
Transportation and communication	67	70	103	20	4	94	76	176	25	91	48
Other economic affairs and services	12	50	35	6	11	112	53	182	38	32	-30
Other	1,053	611	269	389	193	33	379	491	813	379	-14
Interest payments	24	68	284	106	147	122	145	520	123	172	184
Foreign interest payments	24	59	203	69	69	69	69	278	73	120	45
Domestic interest payments	0	9	81	36	77	52	76	242	50	52	139
Net lending 3/	563	556	101	54	17	1	-88	-17	3	-18	-24
Unspecified expenditures	466	-13	-116	229	29	-89	321	-12	686	225	-174
Memorandum items:											
Public investment program	469	610	739	188	150	278	333	949	357	395	392
Nominal GDP	12,019	16,145	23,400	4,462	5,772	10,602	9,850	30,686	5,654	6,604	12,387

Table 17. Kyrgyz Republic: State Government Expenditure by Functional Classification, 1994-98, (concluded)

	1994	1995	1996 1/	1997					1998		
				QI	QII	QIII	QIV	Year	QI Prel.	QII Prel.	QIII Prel.
						(In percent of GDP)					
Total expenditures 2/	28.5	29.4	22.2	28.6	26.5	15.3	23.7	22.0	27.6	30.4	14.0
General public services	2.2	2.2	2.4	2.4	3.3	2.3	2.9	2.7	3.4	3.4	1.9
Defence	0.9	1.5	1.2	1.5	2.1	1.2	1.4	1.5	1.4	3.3	0.9
Public order and safety affairs	1.4	2.1	1.7	1.8	1.5	1.1	1.9	1.5	1.6	1.2	0.7
Education	5.9	6.5	5.2	5.3	6.7	2.9	5.5	4.8	...	5.5	3.6
Health	3.2	3.7	3.2	3.1	3.4	1.9	3.5	2.9	...	3.2	2.0
Social security and welfare affairs	3.1	5.6	3.8	3.2	3.4	1.8	0.0	3.5	2.9	2.7	2.2
Social insurance	2.8	4.9	3.4	2.9	2.9	1.5	0.0	2.9	2.4	1.9	1.5
Social security	0.2	0.6	0.4	0.3	0.5	0.3	1.1	0.6	0.4	0.8	0.6
Housing and community services	0.8	1.1	1.3	0.8	0.9	0.7	1.1	0.9	1.4	1.1	0.9
Recreational, cultural and religious activities	0.6	0.8	0.5	0.4	0.5	0.3	0.6	0.5	0.5	0.7	0.5
Agriculture, water resources, forestry	0.8	1.1	0.8	0.5	0.8	0.5	1.1	0.8	0.8	1.2	0.8
Mining and mineral resources	0.3	0.4	0.3	0.2	0.2	0.1	0.4	0.2	0.2	0.2	0.2
Transportation and communication	0.6	0.4	0.4	0.5	0.1	0.9	0.8	0.6	0.4	1.4	0.4
Other economic affairs and services	0.1	0.3	0.1	0.1	0.2	1.1	0.5	0.6	0.7	0.5	-0.2
Other	8.8	3.8	1.1	8.7	3.3	0.3	3.8	1.6	14.4	5.7	-0.1
						(In percent of expenditure)					
Total expenditures	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
General public services	7.6	7.6	10.7	8.5	12.5	15.3	12.3	12.3	12.3	11.1	13.7
Defence	3.1	5.0	5.6	5.3	7.9	8.1	6.1	6.8	5.1	11.0	6.6
Public order and safety affairs	4.9	7.0	7.8	6.3	5.8	7.1	8.1	7.0	5.7	4.0	4.8
Education	20.5	22.1	23.7	18.5	25.4	18.9	23.3	21.8	...	18.2	25.8
Health	11.3	12.4	14.2	10.8	13.0	12.7	14.7	13.1	...	10.5	14.5
Social security and welfare affairs	10.7	18.9	17.1	11.2	13.0	12.1	0.0	15.7	10.3	8.9	15.5
Social insurance	9.8	16.8	15.4	10.1	11.0	10.0	0.0	13.0	8.9	6.3	11.0
Social security	0.9	2.2	1.7	1.1	2.0	2.1	4.4	2.7	1.5	2.6	4.5
Housing and community services	2.7	3.8	5.7	3.0	3.2	4.7	4.8	4.1	5.2	3.7	6.2
Recreational, cultural and religious activities	2.1	2.7	2.4	1.5	1.8	2.1	2.7	2.1	1.8	2.3	3.4
Agriculture, water resources, forestry	2.9	3.6	3.8	1.7	3.2	3.5	4.7	3.5	2.8	4.0	5.5
Mining and mineral resources	1.2	1.3	1.1	0.7	0.6	0.8	1.7	1.0	0.8	0.6	1.1
Transportation and communication	2.0	1.5	2.0	1.6	0.3	5.8	3.2	2.6	1.6	4.5	2.8
Other economic affairs and services	0.4	1.0	0.7	0.4	0.7	6.9	2.3	2.7	2.5	1.6	-1.7
Other	30.7	12.9	5.2	30.5	12.6	2.0	16.2	7.3	52.0	18.9	-0.8

Sources: Kyrgyz authorities; and Fund staff estimates.

1/ Includes special resources for functional categories starting in 1996.

2/ Excludes PIP.

3/ Includes loans to agriculture and loans from Turkey.

Table 18. Kyrgyz Republic: Social Fund Financial Accounts, 1994-98

	1994	1995	1996	1997	1998 QI-II Prel.
	(In millions of som)				
Total revenues (not including bank deposits)	712	1,313	1,869	2,369	1,134
Pension Fund	521	1,016	1,601	2,072	965
Total contribution and carried over balance	483	905	1,015	1,508	756
Mandated transfer	0	0	104	118	66
Government subsidy	38	111	293	446	144
Arrears collections	...	...	189	...	...
Social Insurance Fund	87	155	202	170	60
Employment Fund	105	142	66	86	46
Total contribution and carried over balance	28	52	66	86	46
Government subsidy	77	91	0	0	0
Medical Fund	...	...	...	41	63
Expenditure	742	1,344	1,948	2,290	1,078
Pension Fund	623	1,200	1,784	2,066	980
Of which: Payment of arrears	...	...	31	79	8
Social Insurance Fund	108	109	106	138	53
Employment Fund	12	35	59	76	32
Medical Fund	0	0	0	9	13
Surplus(+)/deficit(-) (after government subsidy)	-30	-31	-79	-8	-55
Pension Fund	-102	-184	-183	6	-15
Social Insurance Fund	-21	45	96	32	6
Employment Fund	93	107	7	10	14
Medical Fund	0	0	0	32	51
Carried-over grain stock	...	0	0	88	111
Arrears (new)	-30	-31	-79	-8	-55
Memorandum item:					
GDP	12,019	16,145	23,400	30,686	35,832
	(In percent of GDP)				
Total Revenues	5.9	8.1	8.0	7.7	3.2
Pension Fund	4.3	6.3	6.8	6.8	2.7
Total contribution and carried over balance	4.0	5.6	4.3	4.9	2.1
Mandated transfer	0.0	0.0	0.4	0.4	0.2
Government subsidy	0.3	0.7	1.3	1.5	0.4
Arrears collections	0.0	0.0	0.8	0.0	0.0
Social Insurance Fund	0.7	1.0	0.9	0.6	0.2
Employment Fund	0.9	0.9	0.3	0.3	0.1
Total contribution and carried over balance	0.2	0.3	0.3	0.3	0.1
Government subsidy	0.6	0.6	0.0	0.0	0.0
Medical Fund	0.0	0.0	0.0	0.1	0.2
Expenditure	6.2	8.3	8.3	7.5	3.0
Pension Fund	5.2	7.4	7.6	6.7	2.7
Of which: Payment of arrears	0.0	0.0	0.1	0.3	0.0
Social Insurance Fund	0.9	0.7	0.5	0.4	0.1
Employment Fund	0.1	0.2	0.3	0.2	0.1
Medical Fund	0.0	0.0	0.0	0.0	0.0
Surplus(+)/deficit(-) (after government subsidy)	-0.3	-0.2	-0.3	0.0	-0.2
Pension Fund	-0.8	-1.1	-0.8	0.0	0.0
Social Insurance Fund	-0.2	0.3	0.4	0.1	0.0
Employment Fund	0.8	0.7	0.0	0.0	0.0
Medical Fund	0.0	0.0	0.0	0.1	0.1
Carried over grain stock	0.0	0.0	0.0	0.3	0.3
Arrears (new)	-0.2	-0.2	-0.3	0.0	-0.2

Sources: Social Fund; and Fund staff estimates.

Table 19. Kyrgyz Republic: Tax and Expenditure Arrears, 1994-98

	1994	1995	1996	1997					1998		
				QI	QII	QII	QIV	Annual	QI	QII	QIII
				(In million of soms; end-period stocks)							
Arrears of the Republican government	169.0	60.5	65.6	123.4	88.8	206.1	59.9	59.9	0.0	387.2	124.3
Wages	...	...	19.2	62.3	40.0	45.1	5.6	5.6	0.0	38.3	18.7
Social Fund contributions	...	...	3.2	20.3	16.1	11.3	2.6	2.6	0.0	9.6	1.4
Pension supplements	...	...	0.0	2.4	0.0	14.9	0.0	0.0	0.0	11.0	4.1
Subsidies to the Social Fund	...	...	15.1	23.4	10.7	76.4	29.0	29.0	0.0	30.6	20.8
Allowances for poor families	...	...	10.0	15.0	22.0	58.4	17.7	17.7	0.0	94.6	0.0
Categorical grants	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	152.1	79.3
External debt service	...	...	18.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
KyrgyzEnergo and other utility	...	...	...	...	...	...	5.0	5.0	0.0	51.0	0.0
Other	...	...	...	...	...	...	...	...	...	...	0.0
Arrears of the local governments	176.8	152.6	110.0	119.5	82.4	84.3	91.1	91.1	90.2	216.3	123.1
Wages	130.9	70.2	38.9	46.1	22.8	30.5	25.5	25.5	37.8	63.1	87.9
Social contributions	45.9	82.4	71.1	73.4	59.6	53.8	46.6	46.6	52.4	61.2	35.2
Pension supplements	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Allowances for poor families	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
KyrgyzEnergo and other utility	...	...	...	...	...	...	19.0	19.0	...	92.0	0.0
Other	...	...	...	...	...	...	...	...	...	...	0.0
State government expenditure arrears	345.8	213.1	175.6	242.9	171.2	290.4	151.0	151.0	90.2	451.4	168.1
Social Fund	...	89.0	...	...	...	...	14.9	14.9	0.0	55.0	285.3
Pensions	...	89.0	...	...	...	...	14.9	14.9	0.0	55.0	285.3
Other	...	...	...	...	...	...	...	...	0.0	0.0	0.0
General government expenditure arrears	345.8	302.0	175.6	242.9	171.2	290.4	165.9	165.9	90.2	506.4	453.4

Table 19. Kyrgyz Republic: Tax and Expenditure Arrears, 1994-98, (concluded)

	1994	1995	1996	1997					1998		
				QI	QII	QII	QIV	Annual	QI	QII	QIII
Total tax arrears (stock, end-period)	...	...	208.9	297.1	569.3	737.5	718.5	718.5	629.6	681.6	497.3
Income tax	...	...	...	...	...	...	6.1	6.1	20.1	25.9	21.0
Profit tax	...	...	39.5	49.3	105.2	59.4	73.3	73.3	104.9	89.6	72.0
VAT	...	...	87.7	138.1	361.7	498.0	461.5	461.5	314.8	376.4	274.5
Excises	...	...	11.8	18.3	35.1	58.2	28.6	28.6	21.9	22.0	22.4
Emergency Fund	...	...	23.1	34.4	39.3	44.4	43.0	43.0	60.7	57.6	37.0
Road tax		...	10.4	13.3	28.0	39.6	46.9	46.9	51.3	56.2	19.2
Land tax	...	...	...	...	...	...	36.0	36.0	32.7	27.5	22.5
Other	...	...	36.4	43.8	...	38.0	23.0	23.0	23.2	26.5	28.6
Net Increase in total tax arrears (flow)	...	...	...	88.2	272.2	168.2	-19.0	509.6	-88.9	51.9	51.9
New tax arrears	...	...	...	...	...	...	...	...	148.8	250.4	250.4
Gross tax arrears reduction	...	...	...	...	...	...	...	...	237.6	198.5	198.5
Memorandum items:											
Tax offsets	...	509.8	894.0	115.4	135.6	158.2	428.7	837.9	218.8	207.0	405.6
Tax collections	...	2,423.1	2,967.9	707.9	805.0	965.7	1,368.6	3,847.3	1,089.7	1,097.4	1,258.6
Tax offsets as percent of tax revenues	...	21.0	30.1	16.3	16.8	16.4	31.3	21.8	20.1	18.9	32.2
Wage, pension and utitility arrears of the Republican budget and the Social Fund	...	...	37.5	108.4	66.8	147.7	57.1	57.1	0.0	195.5	114.1
Change in wage and Social Fund contribution arrears	...	-78.5	-40.0	69.7	-63.6	2.2	-60.4	-52.1	9.9	82.0	-29.0

Source: Ministry of Finance.

Table 20. Kyrgyz Republic: National Bank of Kyrgyz Republic (NBKR) Accounts, 1994-98

(In millions of soms)

	1994	1995	1996				1997				1998		
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.
Net foreign assets (NFA)	-292.2	-497.8	-692.7	-503.1	-309.0	-301.1	-454.0	52.1	-247.6	381.6	427.6	150.6	198.9
Net international reserves	177.1	-111.1	-291.2	-75.6	125.6	-189.1	-342.0	164.0	-135.7	489.3	536.8	264.7	251.2
Claims on other BRO countries 1/	-469.3	-386.7	-401.5	-427.5	-434.6	-111.9	-111.9	-112.0	-112.0	-107.7	-109.2	-114.2	-52.3
Medium-term NBKR obligations	-266.2	-436.4	-415.1	-499.6	-567.8	-748.1	-881.9	-849.7	-874.8	-880.0	-989.4	-986.3	-1,139.3
Net domestic assets (NDA)	1,626.4	2,978.4	3,053.9	2,962.7	3,242.0	3,582.5	3,839.6	3,591.1	3,880.2	3,567.5	3,708.9	3,984.9	3,897.4
Credit to central government, net	620.6	2,033.9	2,148.4	1,969.9	2,226.3	3,763.5	4,035.8	3,802.6	4,087.2	3,949.0	3,972.2	4,123.4	4,220.4
Direct credits	605.0	1,606.8	1,761.8	1,881.8	2,027.6	2,206.3	2,299.3	2,260.3	2,012.0	1,938.8	1,938.8	1,938.8	1,938.8
Budget account deposits	0.0	-5.8	-19.8	-42.1	-87.1	-147.3	-49.5	-54.1	-87.1	-19.6	-50.5	-49.6	-59.0
Foreign loans counterpart funds	-250.6	-0.8	-4.6	-362.4	-267.5	-0.1	-49.4	-271.1	-0.8	-200.1	-175.5	-10.4	-50.7
Government bonds 2/	0.0	0.0	0.0	0.0	0.0	985.5	1,002.0	1,017.8	1,020.1	1,020.1	1,020.1	1,020.1	1,020.1
Treasury bills (actual value)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	69.1	360.6	421.9	439.3	439.4	461.6
Turkish loan onlending	266.2	433.6	411.0	492.6	553.3	719.0	833.3	780.6	782.5	787.9	799.9	785.2	907.0
Credit to other government, net	-3.4	-2.0	-2.7	-0.6	-3.0	-6.5	-2.1	0.0	0.0	0.0	0.0	0.0	0.0
Credit to banks	1,261.7	1,178.7	1,107.4	1,105.3	1,084.4	123.7	125.1	109.9	122.9	90.6	163.6	192.3	225.9
Of which													
EBRD credit line	0.0	2.8	4.2	6.9	13.6	29.1	44.4	69.2	86.3	90.5	163.5	192.2	225.9
Other items, net	-252.5	-232.2	-199.1	-111.9	-65.8	-298.2	-319.2	-321.4	-329.9	-472.0	-426.9	-330.8	-548.9
Of which													
Reverse repos	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-69.1	-94.0	-183.2	-58.4	-24.7	-93.6
Reserve money	1,067.8	2,044.2	1,946.0	1,960.0	2,365.3	2,533.3	2,503.7	2,793.4	2,757.7	3,069.1	3,147.0	3,149.2	2,957.0
Currency in circulation	1,021.8	1,963.2	1,834.3	1,862.8	2,271.7	2,439.0	2,361.8	2,541.4	2,506.6	2,741.8	2,806.4	2,775.1	2,629.7
Bank deposits	46.0	81.0	111.7	97.2	93.6	94.4	141.9	252.0	251.2	327.3	340.7	374.1	327.3
Memorandum items:													
NIR (in U.S. dollars)	16.4	-9.9	-25.7	-6.2	9.5	-11.3	-19.4	9.5	-7.8	28.2	29.7	13.8	11.2
Velocity (quarterly)	10.2	7.2	5.0	6.3	11.1	9.1	5.4	6.6	12.5	8.4	5.0	5.6	10.0
Annual growth rate of:													
Broad money	125.3	76.7	...	...	...	22.9	...	...	...	25.4	...	...	...
Reserve money	104.6	91.4	...	...	...	23.9	...	...	...	21.1	...	...	...
Credit to the economy	28.7	4.3	...	...	...	-2.9	...	...	...	19.9	...	...	...
Money multiplier	1.432	1.330	1.352	1.347	1.265	1.319	1.301	1.310	1.335	1.365	1.444	1.499	1.591
Share of currency in broad money	65.5	71.3	68.1	69.6	74.6	71.8	70.6	68.2	66.1	63.9	60.0	56.9	53.8
Foreign currency deposits/total deposits	18.3	27.2	31.5	28.0	34.9	42.0	43.7	37.4	38.7	42.6	39.0	37.1	43.2
Exchange rate	10.8	11.2	11.4	12.2	13.3	16.7	17.6	17.4	17.4	17.4	18.1	19.2	22.4

Sources: National Bank of the Kyrgyz Republic; and Fund staff estimates.

1/ From December 1996 onwards, incorporates a revaluation of claims and liabilities vis-a-vis other CIS countries .

2/ From December 1996 onwards, reflects the acquisition of government bonds by the NBKR as part of the restructuring of the financial sector, leading to a corresponding reduction in credit to the economy.

Table 21. Kyrgyz Republic: Monetary Survey, 1994-98

(In millions of soms)

	1994	1995	1996				1997				1998		
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.
Net foreign assets (NFA)	-180.9	-490.4	-837.4	-519.6	-147.0	-38.6	-270.6	259.1	-23.6	749.4	759.3	395.1	369.5
Medium-term NBKR obligations	-266.2	-436.4	-415.1	-499.6	-567.8	-748.1	-881.9	-849.7	-874.8	-880.0	-989.4	-986.3	-1,139.3
Net domestic assets (NDA)	1,976.5	3,645.3	3,883.3	3,658.5	3,707.8	4,127.4	4,409.4	4,250.4	4,578.7	4,318.8	4,775.3	5,312.7	5,474.5
Credit to central government, net	721.7	2,174.1	2,264.2	2,116.0	2,397.6	3,925.7	4,260.8	4,099.7	4,353.4	4,242.8	4,414.7	4,647.7	4,670.2
Credit from the NBKR 1/	706.1	2,033.9	2,148.4	1,969.9	2,226.3	3,763.5	4,035.8	3,802.6	4,087.2	3,949.0	3,972.2	4,123.4	4,220.4
Credit from commercial banks	101.1	140.2	115.8	146.1	171.3	162.2	225.0	297.1	266.2	293.9	442.6	524.3	449.8
Credit to other government, net	-48.6	-60.7	-54.4	-57.7	-58.8	-27.8	-38.2	-55.5	0.0	0.0	0.0	0.0	0.0
Credit to rest of the economy 1/	1,869.1	1,949.7	1,915.1	1,940.2	1,896.9	873.8	765.2	852.8	858.8	1,047.3	1,337.6	1,585.1	1,783.1
Other items, net	-565.8	-417.8	-241.6	-340.1	-527.9	-644.4	-578.5	-646.7	-633.5	-971.3	-977.0	-920.1	-978.8
Broad money	1,529.3	2,718.5	2,630.7	2,639.4	2,993.0	3,340.8	3,256.9	3,659.8	3,680.3	4,188.3	4,545.2	4,721.5	4,704.8
Currency outside banks	1,002.3	1,937.6	1,791.8	1,837.2	2,233.1	2,398.0	2,300.7	2,494.9	2,433.2	2,677.7	2,726.0	2,685.4	2,529.8
Deposits	527.0	780.8	838.9	802.1	759.9	942.8	956.2	1,164.9	1,247.1	1,510.6	1,819.2	2,036.2	2,175.0
Of which													
Foreign currency deposits	96.5	212.0	264.1	224.3	265.0	395.7	418.3	435.6	482.9	643.3	710.0	755.2	939.9

Sources: National Bank of the Kyrgyz Republic; and Fund staff estimates and projections.

1/ From December 1996 onwards, reflects the acquisition of government bonds by the NBKR as part of the restructuring of the financial sector, leading to a corresponding reduction in credit to the economy.

Table 22. Kyrgyz Republic: Key Central Bank Interest Rates, 1996-98
(In percent unless stated otherwise)

	Prime interest rate (End-of-period) 1/	3-month Treasury Bill rate (Weighted average) 2/	Lombard rate (End-of-period) 3/	Reverse repo rate (End-of-period) 4/	Repo rate (End-of-period) 5/	Reserve requirement rate (RR) 6/	Penalty rate for RR non-compliance 7/
1996							
January	46.8	29.6	51.8	--	--	15.0	35.5
February	37.8	37.8	42.8	--	--	15.0	45.4
March	36.2	35.5	41.2	--	--	15.0	42.6
April	36.2	37.3	41.2	--	--	13.5	44.7
May	36.7	36.1	41.7	--	--	13.5	43.4
June	36.7	34.0	41.7	--	--	13.5	40.8
July	40.0	36.2	45.0	--	--	13.5	43.4
August	40.0	29.6	45.0	--	--	13.5	35.5
September	40.0	54.2	45.0	--	--	13.5	65.0
October	45.9	50.4	45.0	--	--	13.5	60.4
November	45.9	48.3	45.0	--	--	13.5	58.0
December	45.9	52.3	51.0	--	--	15.0	62.8
1997							
January	46.9	46.9	56.3	--	50.4	20.0	56.3
February	73.7	73.7	88.4	--	--	20.0	88.4
March	45.1	45.1	54.2	--	--	20.0	54.2
April	37.2	37.2	44.7	--	--	20.0	52.1
May	48.7	48.7	57.4	48.7	--	20.0	68.2
June	25.9	25.9	31.1	25.0	--	20.0	36.3
July	16.7	16.7	20.1	27.6	22.0	20.0	23.4
August	28.7	28.7	39.2	27.6	34.5	20.0	40.2
September	29.6	29.6	35.6	43.6	39.4	20.0	41.5
October	25.9	25.9	31.9	37.8	--	20.0	36.3
November	27.9	27.9	31.9	39.3	--	20.0	39.1
December	23.5	23.5	28.2	27.6	--	20.0	32.9
1998							
January	21.7	21.7	26.0	41.7	--	20.0	20.3
February	28.2	28.2	33.8	28.6	28.6	20.0	25.4
March	24.5	24.5	29.4	21.5	--	20.0	26.5
April	19.5	19.2	23.4	--	19.3	20.0	20.9
May	27.2	27.2	40.0	19.4	--	20.0	21.2
June	50.0	41.5	60.0	50.0	60.0	20.0	100.0
July	50.0	42.0	60.0	39.1	--	20.0	100.0
August	50.0	54.5	60.0	49.0	60.0	20.0	100.0
September	50.0	58.9	70.0	65.0	--	20.0	140.0
October	50.0	82.1	70.0	--	--	20.0	140.0
November	50.0	89.6	84.0	--	96.0	20.0	252.0
December	32.9	32.9	90.9	65.0	--	20.0	138.1

Sources: National Bank of the Kyrgyz Republic; and Fund staff estimates and projections.

1/ Rate at which the NBKR lends to commercial banks. Until December 1996, NBKR credit auction rate. Starting January 1997, after the abolition of credit auctions, equal to 3-month Treasury Bill rate in the primary market. Since June 1998, set independently by NBKR Board of Directors. Since December 1998 again equal to the 3-month Treasury bill rate.

2/ Weighted average annual rate on 3-month Treasury Bills in the primary market.

3/ Rate at which the NBKR extends collateralized short-term liquidity loans to banks. From December 1998 Lombard facility is an overnight facility.

4/ Rate at which the NBKR sells government securities to commercial banks to mop up liquidity.

5/ Rate at which the NBKR purchases government securities from commercial banks to mop up liquidity.

6/ Required reserves on deposits in national and foreign currency to be held by commercial banks on accounts with the NBKR.

7/ Until March 1997, penalty rate for non-compliance was 1.2 times the 3-month Treasury Bill rate in the primary market at the end of the reporting period. Between April 1997 and July 1998, penalty rate was raised to 1.4 times that Treasury Bill rate. Beginning August 1998, penalty rate was raised to 2 times the Lombard rate, and beginning November 17, 1998, to three times the Lombard rate. As of December 1, 1998, the penalty rate was set at three times the prime interest rate.

Table 23. Kyrgyz Republic: Three-month Treasury Bill Auctions, 1994-98

Auction date		Total number of bids accepted	Total amount sold	*Of which* Nonbank	Average annual yield
			(In millions of soms)		(In percent)
1994	February	9	0.40	0.00	358.3
	March	45	1.48	0.00	426.8
	April	78	31.93	0.00	396.7
	May	58	38.00	0.33	303.4
	June	60	48.00	0.24	287.5
	July	41	35.00	1.12	274.3
	August	63	31.00	1.78	241.4
	September	105	43.00	6.02	248.6
	October	25	23.50	10.62	159.7
	November	43	10.00	1.62	105.6
	December	59	9.00	0.31	73.1
1995	January	59	9.00	1.71	72.1
	February	26	3.50	0.87	68.2
	March	27	9.99	3.62	51.9
	April	32	13.50	0.70	37.4
	May	38	12.00	0.01	34.4
	June	36	18.00	0.11	29.2
	July	37	20.00	0.00	29.1
	August	39	24.93	0.00	32.0
	September	26	7.50	0.00	30.2
	October	32	14.00	0.38	28.2
	November	76	26.88	0.00	28.3
	December	58	13.53	0.04	43.4
1996	January	21	5.00	0.16	34.1
	February	71	14.00	0.11	34.1
	March	49	17.50	0.57	42.1
	April	58	20.50	0.35	43.0
	May	78	27.00	0.66	42.2
	June	51	24.00	0.43	41.1
	July	84	29.50	4.35	37.8
	August	46	23.50	0.84	34.1
	September	91	25.00	2.28	58.7
	October	65	16.00	2.95	63.0
	November	31	19.00	2.55	58.9
	December	54	26.50	3.79	57.0
1997	January	71	21.50	2.99	63.1
	February	79	20.00	2.08	69.8
	March	36	19.00	4.48	63.8
	April	30	26.50	6.54	45.7
	May	62	28.00	1.12	54.1
	June	36	19.00	4.13	33.3
	July	63	30.50	2.62	20.3
	August	72	24.00	0.22	28.1
	September	55	20.00	2.29	36.3
	October	60	25.00	3.83	29.9
	November	60	20.00	3.91	30.1
	December	30	17.00	1.62	27.4
1998	January	29	35.50	5.67	22.4
	February	89	46.50	3.55	29.6
	March	44	40.00	8.99	29.4
	April	30	28.00	6.73	22.9
	May	44	25.00	3.87	21.3
	June	68	30.00	3.36	39.3
	July	62	24.50	5.19	44.7
	August	110	32.00	1.83	52.8
	September	99	4.50	0.80	76.5
	October	49	10.00	0.94	85.7
	November	53	8.50	1.87	137.7
	December	51	5.50	0.76	72.0

Sources: National Bank of the Kyrgyz Republic; and Fund staff estimates.

Table 24. Kyrgyz Republic: Interest Rates on Domestic and Foreign Currency Credits, 1996-98 1/
(In percent)

	U.S. dollars	Soms 2/
1996 January	...	64.64
February	...	66.02
March	...	71.63
April	...	65.30
May	...	62.12
June	...	68.79
July	...	54.08
August	...	69.06
September	...	57.35
October	...	59.69
November	...	54.34
December	40.87	65.02
1997 January	57.50	57.38
February	60.36	57.72
March	69.61	70.49
April	52.89	71.68
May	54.90	80.30
June	53.58	57.91
July	33.33	73.69
August	42.55	66.93
September	50.40	59.90
October	49.88	64.90
November	41.52	55.70
December	27.46	49.40
1998 January	29.65	50.45
February	40.05	50.89
March	37.70	52.08
April	42.84	51.95
May	58.21	50.14
June	39.46	55.65
July	46.37	53.29
August	44.94	53.08
September	46.35	67.77
October	23.83	57.20
November	37.91	73.72
December	43.61	73.44

Source: National Bank of the Kyrgyz Republic.
1/ Rates refer to new credits extended during the month.
2/ Weighted average annual rate on new loans in som granted for a period of 1-3 months to all sectors.

Table 25. Kyrgyz Republic: Interest Rates on Domestic and Foreign Currency Deposits, 1996-98 1/
(In percent)

	U.S. dollars	Soms 2/	Memorandum item: 3-month Treasury Bills
1996 January	...	36.15	34.09
February	...	24.16	34.08
March	...	18.07	42.10
April	...	30.43	43.04
May	...	34.13	42.23
June	...	31.49	41.15
July	...	35.67	37.79
August	...	38.79	34.10
September	...	34.39	58.69
October	...	33.32	63.02
November	...	35.71	58.89
December	15.00	36.73	56.99
1997 January	15.00	33.92	63.15
February	9.63	33.03	69.77
March	18.59	38.26	63.78
April	24.00	28.95	45.71
May	12.75	38.32	54.14
June	9.08	33.78	33.32
July	1.01	36.31	20.31
August	12.12	29.10	28.06
September	23.72	36.10	36.34
October	0.00	36.00	29.86
November	24.16	36.10	30.14
December	5.00	39.60	29.83
1998 January	15.00	32.18	22.38
February	11.05	25.50	29.60
March	0.00	24.06	29.42
April	14.97	30.04	22.91
May	10.00	25.40	21.28
June	0.00	32.11	39.33
July	21.90	22.94	44.65
August	12.00	27.42	52.80
September	17.37	26.66	76.48
October	29.20	34.11	85.72
November	18.35	44.94	137.73
December	18.15	47.50	72.03

Source: The National Bank of the Kyrgyz Republic.
1/ Rates refer to new deposits attracted during the month.
2/ Weighted average annual rate offered by commercial banks on new deposits in som for 1-3 months to legal entities.

Table 26. Kyrgyz Republic: Stock of Outstanding Government Securities, 1996-98
(In millions of som, end-of-period)

	Total	NBKR					Commercial Banks					Other residents					Non-residents				
		GSOs 1/	Treasury Bills[1]		KOs 2/	Total	GSOs 1/	Treasury Bills		KOs 2/	Total	GSOs 1/	Treasury Bills		KOs 2/	Total	GSOs 1/	Treasury Bills		KOs 2/	Total
			Nominal	Actual				Nominal	Actual				Nominal	Actual				Nominal	Actual		
1996																					
December	1,185.5	0.0	0.0	0.0	985.5	985.5	0.0	151.3	123.4	22.0	173.3	0.0	26.7	21.7	0.0	26.7	0.0	0.0	0.0	0.0	0.0
1997																					
January	1,191.2	0.0	0.0	0.0	1,002.0	1,002.0	0.0	163.6	132.2	0.2	163.8	0.0	25.4	20.6	0.0	25.4	0.0	0.0	0.0	0.0	0.0
February	1,310.1	0.0	0.0	0.0	1,002.0	1,002.0	0.0	155.4	124.5	107.5	262.9	0.0	45.2	36.2	0.0	45.2	0.0	0.0	0.0	0.0	0.0
March	1,331.8	0.0	0.0	0.0	1,002.0	1,002.0	0.0	158.1	124.9	121.5	279.6	0.0	50.2	39.7	0.0	50.2	0.0	0.0	0.0	0.0	0.0
April	1,366.7	0.0	0.0	0.0	1,017.7	1,017.7	0.0	173.1	138.1	116.4	289.5	0.0	59.5	47.5	0.0	59.5	0.0	0.0	0.0	0.0	0.0
May	1,432.8	0.0	43.8	39.0	1,017.7	1,061.5	0.0	186.0	149.6	119.8	305.8	0.0	65.5	52.7	0.0	65.5	0.0	0.0	0.0	0.0	0.0
June	1,469.4	0.0	75.8	69.0	1,017.7	1,093.4	0.0	185.4	150.2	119.8	305.2	0.0	55.0	44.6	2.0	57.0	0.0	13.8	11.2	0.0	13.8
July	1,743.5	232.2	75.8	69.0	1,020.1	1,328.0	0.0	206.2	169.3	146.3	352.5	0.0	40.4	33.2	2.0	42.4	0.0	20.6	16.9	0.0	20.6
August	1,768.2	284.5	32.0	30.0	1,020.1	1,336.6	0.0	211.6	175.4	145.9	357.5	0.0	37.7	31.3	2.0	39.7	0.0	34.5	28.6	0.0	34.5
September	1,875.8	408.1	0.0	0.0	1,020.1	1,428.1	0.0	204.7	167.9	139.5	344.2	0.0	38.9	32.0	2.0	40.9	0.0	62.6	51.8	0.0	62.6
October	1,917.3	440.8	0.0	0.0	1,020.1	1,460.9	0.0	203.2	165.4	134.4	337.6	0.0	36.5	29.7	2.0	38.5	0.0	80.3	65.4	0.0	80.3
November	1,933.2	440.8	0.0	0.0	1,020.1	1,460.9	0.0	200.8	162.5	134.4	335.2	0.0	33.1	26.8	2.0	35.1	0.0	102.0	82.5	0.0	102.0
December	1,948.4	440.8	0.0	0.0	1,020.1	1,460.9	0.0	214.1	172.8	134.4	348.4	0.0	35.5	28.6	1.8	37.3	0.0	101.8	82.2	0.0	101.8
1998																					
January	2,004.7	440.8	0.0	0.0	1,020.1	1,460.9	0.0	284.3	231.5	134.4	418.7	0.0	39.7	32.3	1.8	41.5	0.0	83.6	68.1	0.0	83.6
February	2,086.8	440.8	0.0	0.0	1,020.1	1,460.9	0.0	356.6	291.8	134.4	490.9	0.0	44.8	36.6	1.8	46.6	0.0	88.4	72.4	0.0	88.4
March	2,163.0	440.8	0.0	0.0	1,020.1	1,460.9	0.0	414.9	339.6	127.2	542.0	0.0	43.0	35.2	1.8	44.8	0.0	115.2	94.3	0.0	115.2
April	2,201.1	440.8	0.0	0.0	1,020.1	1,460.9	0.0	463.1	379.2	127.2	590.2	0.0	40.1	32.4	1.8	41.9	0.0	108.1	88.5	0.0	108.1
May	2,236.4	440.8	0.0	0.0	1,020.1	1,460.9	0.0	494.1	400.2	127.2	621.2	0.0	47.1	38.2	1.8	48.9	0.0	105.5	85.4	0.0	105.5
June	2,265.9	440.8	0.0	0.0	1,020.1	1,460.9	0.0	490.9	396.2	127.2	618.1	0.0	60.6	48.9	1.8	62.4	0.0	124.5	100.5	0.0	124.5
July	2,311.4	440.8	24.5	19.2	1,020.1	1,485.4	0.0	442.1	346.4	140.6	582.7	0.0	100.1	78.4	37.8	137.9	0.0	105.4	82.6	0.0	105.4
August	2,300.1	440.8	24.5	19.4	1,020.1	1,485.4	0.0	448.2	353.7	140.6	588.8	0.0	102.1	80.5	34.7	136.8	0.0	89.1	70.3	0.0	89.1
September	2,217.0	440.8	26.0	22.5	1,020.1	1,486.8	0.0	365.9	316.8	128.9	494.9	0.0	119.5	103.5	37.2	156.8	0.0	78.5	68.0	0.0	78.5
October	2,161.4	440.8	12.2	9.3	1,020.1	1,473.0	0.0	382.8	293.9	128.9	511.7	0.0	117.9	90.5	33.2	151.1	0.0	25.6	19.6	0.0	25.6

Source: The National Bank of the Kyrgyz Republic.
1/ GSOs are non-interest bearing securities issued to securitize previously extended direct NBKR credit to the government and provide the NBKR with a stock of government securities to conduct open market-type operations.
2/ Medium - to long-term government bonds.

Table 27. Kyrgyz Republic: Transactions in the Interbank Market, 1997-98

(In millions of som, unless stated otherwise)

	Transactions in national currency			Transactions in foreign currency			Total transactions		Maturity structure (in percent of total volume)					
	Volume	Number	Weighted average interest rate	Volume	Number	Weighted average interest rate	Volume	Number	Up to 1 day	2-7 days	8-14 days	15-30 days	31-60 days	More than 60 days
1997														
January	4.5	4	55.7	0.0	0	...	4.5	...	0.0	0.0	0.0	77.8	22.2	0.0
February	6.4	5	54.1	0.0	0	...	6.4	...	0.0	76.4	0.0	23.6	0.0	0.0
March	8.7	3	55.0	5.2	3	31.4	13.8	...	0.0	45.3	0.0	0.0	0.0	54.7
April	12.7	7	47.0	0.0	0	...	12.7	...	0.0	68.7	0.0	11.8	0.0	19.5
May	8.7	8	49.3	4.4	2	32.0	13.1	...	0.0	47.2	7.6	0.0	0.0	45.2
June	23.5	11	49.2	0.0	0	...	23.5	...	0.0	72.3	0.0	2.1	0.0	25.5
July	11.2	7	39.3	18.7	5	17.0	29.9	...	6.7	23.6	3.3	0.0	4.3	62.1
August	25.8	13	35.5	10.5	6	23.4	36.3	19	9.5	55.6	7.2	11.0	0.0	16.7
September	12.8	9	35.7	6.8	3	27.2	19.5	12	8.0	64.9	12.8	0.0	0.0	14.3
October	32.9	19	33.6	12.8	7	21.2	45.7	26	11.4	43.1	2.2	8.7	7.7	27.0
November	18.4	11	37.2	21.3	8	23.9	39.6	19	0.0	12.1	2.5	11.9	2.5	71.0
December	26.7	15	35.0	47.5	11	26.7	74.2	26	2.3	3.4	7.4	2.5	10.0	74.4
1998														
January	29.5	16	25.0	3.6	1	17.0	33.0	17	6.1	33.3	0.0	6.7	10.9	43.1
February	24.3	17	27.5	94.8	12	9.4	119.1	29	2.7	65.8	4.0	5.8	5.9	15.8
March	13.9	12	25.9	24.4	7	18.6	38.3	19	0.0	14.6	7.8	7.8	13.7	56.1
April	29.7	18	25.6	25.6	12	19.0	55.3	30	6.3	9.5	21.6	7.2	5.0	50.4
May	60.3	43	28.1	41.4	13	21.4	101.8	56	7.7	26.5	1.0	20.9	7.3	36.6
June	119.8	63	41.3	27.8	14	21.3	147.6	77	25.8	36.6	0.6	4.5	0.3	32.1
July	210.6	114	46.3	43.3	15	21.5	253.9	129	46.7	32.6	3.8	0.5	2.3	14.2
August	147.6	82	36.1	46.3	18	22.3	193.9	100	47.0	25.8	2.1	15.2	5.9	4.1
September	201.9	100	42.2	47.0	15	27.4	248.9	115	55.0	33.6	1.5	9.9	0.0	0.0
October	257.9	112	58.0	28.1	11	26.7	286.0	123	41.7	48.7	2.0	3.3	1.8	2.5
November	160.2	...	76.2	14.3	...	28.0	174.4	...	...	...	...	...	...	...
December	666.5	...	95.9	17.7	...	20.7	684.1	...	...	...	...	...	...	...

Source: The National Bank of the Kyrgyz Republic.

Table 28. Kyrgyz Republic: Composition of Credit to the Economy by Sector, Maturity, Currency, and Bank, 1996-98
(In percent of total credit)

	1996	1997				1998			
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
I. By sector:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Industry	5.3	6.7	7.1	5.8	5.9	4.9	8.9	6.9	7.4
Agriculture	1.6	1.6	1.3	1.5	0.9	1.0	1.0	1.0	0.8
Trade	22.2	22.2	21.1	19.6	16.1	16.5	43.2	42.4	33.0
Construction	3.9	4.7	2.9	2.8	2.5	2.8	5.3	5.8	13.7
Private citizens	18.8	36.9	29.6	17.1	20.1	16.8	17.1	16.2	15.9
Other	48.0	27.9	38.0	53.2	54.6	58.0	24.5	27.8	29.2
II. By maturity:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
less than 1 month	4.2	0.3	0.7	2.6	2.8	1.4	4.0	4.7	2.0
1 month to < 3 months	19.8	14.3	10.4	7.8	10.0	10.2	9.4	7.1	7.6
3 months to < 6 months	44.1	50.4	26.9	59.6	58.8	52.5	28.3	44.2	34.3
6 months to < 12 months	10.4	14.8	42.3	12.3	13.6	18.3	39.4	19.3	21.4
1 year to < 5 years	20.1	18.6	15.5	14.4	14.5	17.4	18.7	24.5	34.5
more than 5 years	1.4	1.6	4.2	3.4	0.3	0.2	0.2	0.1	0.1
III. By currency	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
National currency	61.4	55.2	53.2	46.7	47.6	44.5	46.4	43.2	29.0
Foreign currency	38.6	44.8	46.8	53.4	52.4	55.5	53.6	56.8	71.0
IV. By bank									
Most active bank	27.1	29.8	31.1	37.6	36.2	36.6	35.5	30.7	27.7
Four most active banks	62.8	63.5	66.4	70.7	64.3	65.8	64.1	65.3	58.7

Sources: National Bank of the Kyrgyz Republic; and Fund staff estimates and projections.

Table 29. Kyrgyz Republic: Composition of Deposits by Depositor, Maturity, Currency, and Bank, 1996-98
(In percent of total deposits)

	1996	1997				1998			
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
I. By depositor:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Legal entities	67.5	63.9	64.6	55.8	48.9	45.6	42.5	42.2	45.9
Individuals	32.5	36.1	35.4	44.2	51.1	54.4	57.5	57.8	54.1
II. By maturity:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
less than 1 month	69.5	68.0	62.4	59.7	58.1	52.4	47.4	43.4	48.1
1 month to < 3 months	9.0	6.2	8.1	8.4	7.0	6.5	4.4	7.9	16.7
3 months to < 6 months	13.8	18.4	23.0	27.5	28.0	27.6	31.6	33.4	28.4
6 months to < 12 months	6.7	6.3	5.3	3.6	6.2	8.1	8.2	8.3	6.5
1 year to < 5 years	1.1	1.1	1.2	0.9	0.7	5.3	8.4	7.1	0.3
more than 5 years	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
III. By currency:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
National currency	58.0	57.5	62.2	60.9	58.2	61.6	63.4	57.2	44.7
Foreign currency	42.0	42.5	37.8	39.1	41.8	38.4	36.6	42.8	55.3
IV. By bank									
Most active bank	14.2	14.1	15.4	18.5	17.6	24.3	26.0	22.8	17.4
Four most active banks	63.0	56.9	59.8	60.6	58.1	59.8	60.3	63.7	57.6
Settlement and Savings Corporation	1.8	6.3	6.8	7.6	10.8	10.3	8.2	4.3	5.0

Sources: National Bank of the Kyrgyz Republic; and Fund staff estimates and projections.

Table 30. Kyrgyz Republic: U.S. Dollar Exchange Rate, 1994-98 1/
(In soms per U.S. dollar)

	Average clearing rate	End-of-period clearing rate
1994 January	8.51	9.15
February	10.19	10.80
March	11.66	11.70
April	12.30	12.30
May	12.23	11.70
June	11.33	11.30
July	10.97	10.20
August	10.27	10.50
September	10.59	10.60
October	10.65	10.60
November	10.61	10.65
December	10.66	10.60
1995 January	10.76	10.80
February	10.80	10.80
March	10.89	10.90
April	10.90	10.90
May	10.94	10.96
June	10.79	10.60
July	10.56	10.53
August	10.47	10.45
September	10.68	10.86
October	10.93	10.92
November	10.97	11.00
December	11.23	11.15
1996 January	11.22	11.30
February	11.28	11.40
March	11.37	11.35
April	11.56	11.65
May	12.06	12.00
June	12.25	12.20
July	12.17	12.25
August	12.20	12.15
September	12.84	13.25
October	14.03	15.40
November	15.84	16.85
December	16.83	16.70
1997 January	17.05	17.10
February	16.90	17.25
March	17.61	17.64
April	17.87	17.87
May	17.89	17.78
June	17.26	17.35
July	17.28	17.28
August	17.25	17.22
September	17.50	17.40
October	17.20	17.00
November	17.21	17.44
December	17.42	17.38
1998 January	17.70	17.99
February	17.72	17.64
March	17.98	18.05
April	18.33	18.85
May	19.52	20.22
June	19.53	19.15
July	19.42	19.50
August	19.73	20.16
September	21.33	22.40
October	23.43	24.89
November	28.01	28.89
December	29.26	29.40

Sources: National Bank of the Kyrgyz Republic; and Fund staff estimates.
1/ Before July 1998 based on NBKR foreign exchange auctions; from July 1998 based on interbank market transactions.

Table 31. Kyrgyz Republic: Development of Foreign Exchange Auctions and Interbank Market, 1996-98

(In millions of U.S. dollars unless stated otherwise)

	Volume of NBKR sales to Central Treasury	Volume of NBKR sales to private sector	*Of which:* Volume of NBKR sales in auctions	*Of which:* Volume of NBKR sales in interbank market	Total volume of NBKR sales	Volume of NBKR purchases in interbank market	Memorandum item: Share of NBKR sales in interbank market in total sales to private sector (in percent)
	(1)	(2)=(3)+(4)	(3)	(4)	(5)=(1)+(2)	(6)	(7)=(4)/(2)
1996	16.3	105.3	103.9	1.4	121.6	24.0	1.3
January	0.2	17.1	17.1	0.0	17.2	1.4	0.0
February	2.8	12.3	10.9	1.4	15.1	1.2	11.4
March	1.7	9.2	9.2	0.0	10.9	1.2	0.0
April	2.5	10.5	10.5	0.0	13.0	1.2	0.0
May	0.5	6.2	6.2	0.0	6.7	0.8	0.0
June	1.8	5.7	5.7	0.0	7.5	2.7	0.0
July	0.9	5.4	5.4	0.0	6.2	4.3	0.0
August	2.0	6.2	6.2	0.0	8.2	3.7	0.0
September	1.1	4.1	4.1	0.0	5.2	2.3	0.0
October	2.2	7.5	7.5	0.0	9.7	1.9	0.0
November	0.2	13.7	13.7	0.0	13.9	0.8	0.0
December	0.4	7.5	7.5	0.0	7.9	2.6	0.0
1997	28.1	46.5	46.5	0.0	74.6	15.4	0.0
January	1.8	8.0	8.0	0.0	9.8	1.9	0.0
February	0.8	4.3	4.3	0.0	5.1	1.5	0.0
March	3.7	3.9	3.9	0.0	7.6	2.1	0.0
April	2.3	3.2	3.2	0.0	5.5	1.8	0.0
May	0.8	3.1	3.1	0.0	3.9	2.7	0.0
June	5.9	2.6	2.6	0.0	8.5	0.6	0.0
July	2.5	4.3	4.3	0.0	6.8	0.0	0.0
August	2.4	3.7	3.7	0.0	6.2	0.0	0.0
September	1.9	3.4	3.4	0.0	5.3	1.3	0.0
October	0.7	1.7	1.7	0.0	2.4	1.3	0.0
November	2.6	4.5	4.5	0.0	7.1	0.8	0.0
December	2.6	4.0	4.0	0.0	6.7	1.6	0.0
1998	22.0	44.2	15.4	28.8	66.3	2.3	65.1
January	2.1	6.3	6.3	0.0	8.4	0.0	0.0
February	1.9	1.3	1.3	0.0	3.2	0.0	0.0
March	1.8	1.1	1.1	0.0	2.9	0.0	0.0
April	1.3	2.6	2.6	0.0	3.8	0.0	0.0
May	3.7	3.5	3.5	0.0	7.2	0.0	0.0
June	6.1	1.0	0.7	0.3	7.1	2.1	31.0
July 1/	0.6	4.6	0.0	4.6	5.2	0.1	100.0
August	2.7	9.4	0.0	9.4	12.1	0.0	100.0
September	0.6	9.0	0.0	9.0	9.6	0.1	100.0
October	1.4	5.5	0.0	5.5	6.9	0.0	100.0

Sources: National Bank of the Kyrgyz Republic; and Fund staff estimates and projections.

1/ As of July 1998, foreign exchange auctions were abolished. Since then, the NBKR has participated in the foreign exchange interbank market.

Table 32. Kyrgyz Republic: Composition of Gross Reserves of the NBKR, 1994-98
(In millions of U.S. dollars unless stated otherwise; end-of-period)

	1994	1995	1996				1997				1998		
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.
Total gross reserves	97.8	114.6	95.7	114.5	149.8	128.5	118.2	168.1	148.7	198.3	188.8	172.7	179.9
Gold	30.5	47.7	29.4	33.5	38.3	43.2	44.9	29.1	29.1	29.1	25.2	25.2	25.2
Foreign exchange cash	0.0	0.0	2.5	3.3	1.0	4.0	3.5	3.3	2.9	2.8	2.8	2.6	1.9
Foreign exchange deposits	67.3	66.9	63.7	77.6	95.6	71.3	69.8	135.7	116.8	156.5	150.8	134.9	142.8
In SDR	1.0	14.4	13.4	12.8	10.3	7.4	4.5	2.7	4.2	0.9	0.7	0.7	0.2
In U.S. dollars	65.3	52.5	49.8	64.6	85.2	63.8	65.2	132.8	112.4	150.9	145.5	124.8	132.4
In Deutschmarks	0.2	0.0	0.5	0.1	0.2	0.0	0.1	0.1	0.2	0.2	0.2	0.3	0.5
In Swiss Franks	0.8	0.0	0.0	0.2	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.1	0.2
In ECU	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.5	4.4	8.9	9.6
In Yen	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign exchange investments	0.0	0.0	0.0	0.0	14.8	9.9	0.0	0.0	0.0	9.9	9.9	10.0	10.0
U.S. Treasury Bills	0.0	0.0	0.0	0.0	14.8	9.9	0.0	0.0	0.0	9.9	9.9	10.0	10.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:													
Total gross reserves (in millions of soms)	1,041.5	1,283.5	1,085.7	1,396.5	1,984.6	2,145.5	2,084.7	2,917.5	2,587.7	3,446.0	3,407.2	3,306.9	3,979.3

Sources: National Bank of the Kyrgyz Republic; and Fund staff estimates.

Table 33. Kyrgyz Republic: Balance of Payments, 1994-98
(In millions of U.S. dollars)

	1994	1995	1996 Revised	1997 Prel.	1998 QI-QIII Prel.
Current account balance 1/	-124.2	-242.2	-424.7	-139.1	-228.5
Trade balance	-119.0	-179.0	-251.7	-15.3	-124.1
Exports, fob	339.9	409.0	531.1	630.8	404.3
CIS countries	222.8	269.3	393.9	346.2	196.5
Energy	72.6	45.5	78.0	86.5	24.6
Other	150.2	223.8	315.9	259.8	171.9
Other countries (including Baltics)	117.1	139.7	137.2	284.5	207.8
Of which					
Kumtor gold project	0.0	0.0	0.0	184.0	144.7
Imports, fob	458.9	588.0	782.8	646.1	528.4
CIS countries	264.0	346.4	431.1	396.0	278.2
Energy	183.2	180.6	207.7	177.5	113.5
Other	80.8	165.8	223.4	218.6	164.6
Other countries (including Baltics)	194.9	241.6	351.7	250.1	250.2
Of which					
Kumtor	0.0	20.7	77.1	25.0	18.2
Services (net)	-34.6	-141.8	-256.2	-191.4	-143.1
Credits	49.1	57.7	31.5	45.0	43.7
Transportation	14.3	15.5	7.2	8.8	14.7
Travel	2.6	4.7	4.2	7.1	6.0
Other	32.2	37.5	20.0	29.1	23.0
Debits	-62.1	-101.2	-178.7	-130.8	-108.0
Transportation	-26.5	-34.4	-103.4	-79.8	-65.2
Travel	-2.2	-6.5	-5.7	-3.7	-3.0
Technical assistance	-29.5	-45.3	-44.8	-23.3	-14.9
Other	-3.8	-15.0	-24.8	-24.0	-24.9
Interest (net)	-17.4	-28.6	-34.3	-56.8	-44.4
Kumtor services	-4.3	-69.8	-70.4	-40.3	-14.6
Other income (net)	0.0	0.0	-4.3	-8.5	-6.3
Transfers (net)	29.4	78.6	83.2	67.6	38.7
Official (net)	75.4	98.6	80.8	65.4	44.9
Private	-46.0	-20.0	2.4	2.2	-6.2
Capital account balance	158.3	248.5	347.2	258.9	153.7
Direct foreign investment	44.9	96.1	46.3	83.0	36.8
Of which					
Kumtor	0.0	92.5	-2.3	30.0	0.0
Medium-and long-term loans, net	108.6	200.0	309.7	151.7	97.8
Disbursement	109.2	272.2	360.2	167.1	113.6
CIS countries	10.6	0.0	0.0	12.5	13.4
Others (including Baltics)	98.6	272.2	360.2	154.6	100.1
Of which					
Kumtor	0.0	89.7	195.3	0.0	0.0
Amortization	0.6	72.2	50.5	15.4	15.8
Commercial banks	4.8	-3.3	-0.5	0.8	9.6
Accounts held abroad and other assets	0.0	-44.3	-8.3	23.4	9.4
Errors and omissions and short term capital	21.6	-86.3	56.9	-74.2	53.3
Overall balance	55.7	-79.8	-20.5	45.6	-21.5
Financing	-55.7	79.8	20.5	-45.6	21.5
Gross official reserves (- increase) 2/	-32.1	0.3	-18.1	-82.6	15.0
IMF	13.8	46.6	19.6	34.4	4.5
Purchases and disbursements	13.8	46.6	23.5	43.9	14.2
Repurchases and repayments	0.0	0.0	-3.9	-9.5	-9.7
Accumulation of arrears	11.7	30.8	-39.4	-1.8	-1.3
CIS	10.2	29.3	-37.1	-1.8	0.0
Others (including Baltics)	1.5	1.5	-2.3	0.0	0.0
Interrepublican enterprise arrears 3/	-31.2	-0.6	0.0	0.0	0.0
Debt conversion and rescheduling 4/	-0.2	2.2	58.2	4.4	3.3
Reduction in NBKR liabilities	-17.7	0.5	0.2	0.0	0.0
Memorandum item:					
Current account/GDP	-11.2	-16.2	-23.2	-7.9	...

Sources: Kyrgyz authorities; and Fund staff estimates.

1/ Includes both official and private transfers.

2/ Includes monetization of gold.

3/ Represents external payments arrears not guaranteed by the Government.

4/ For 1995, reflects rescheduled payments to Russia of US$32.1 million, and US$6.6 million due to Kazakhstan that were offset against Kyrgyz claims. For 1996, it reflects rescheduled payments to Russia and Turkey.

Table 34. Kyrgyz Republic: Exports of Goods, 1994-98

	1994	1995	1996 Revised	1997 Prel.	1998 QI-QIII Prel.
	(In millions of U.S. dollars)				
Total exports 1/	340.0	408.9	531.2	603.8	385.7
Industry	329.2	366.1	468.0	558.7	345.0
Electric energy	63.5	41.0	73.6	83.2	22.5
Oil and gas industry	6.3	1.5	2.8	2.4	2.3
Coal industry	2.8	3.1	2.0	1.8	0.3
Ferrous metallurgy	9.2	10.4	6.9	3.0	1.5
Nonferrous metallurgy	52.2	62.7	81.9	216.2	167.9
Chemical and petrochemical	6.7	20.3	16.2	16.5	8.4
Machine building	33.7	44.5	56.2	61.6	46.7
Lumber and paper	1.2	1.8	2.4	3.6	2.8
Industrial construction materials	17.6	11.6	21.8	26.9	20.0
Light industry	77.8	82.6	74.4	60.7	25.6
Food industry	56.3	82.8	127.0	79.6	44.3
Other industry	1.8	3.8	2.8	3.2	2.7
Agriculture	10.6	42.9	63.2	45.2	40.7
Other	0.1	0.0	0.0	0.0	0.0
	(In percent of total)				
Total exports	100.0	100.0	100.0	100.0	100.0
Industry	96.8	89.5	88.1	92.5	89.4
Electric energy	18.7	10.0	13.9	13.8	5.8
Oil and gas industry	1.9	0.4	0.5	0.4	0.6
Coal industry	0.8	0.8	0.4	0.3	0.1
Ferrous metallurgy	2.7	2.5	1.3	0.5	0.4
Nonferrous metallurgy	15.4	15.3	15.4	35.8	43.5
Chemical and petrochemical	2.0	5.0	3.0	2.7	2.2
Machine building	9.9	10.9	10.6	10.2	12.1
Lumber and paper	0.4	0.4	0.5	0.6	0.7
Industrial construction materials	5.2	2.8	4.1	4.4	5.2
Light industry	22.9	20.2	14.0	10.0	6.6
Food industry	16.6	20.2	23.9	13.2	11.5
Other industry	0.5	0.9	0.5	0.5	0.7
Agriculture	3.1	10.5	11.9	7.5	10.6
Other	0.0	0.0	0.0	0.0	0.0

Sources: Kyrgyz authorities; and Fund staff estimates.

1/ Data for 1997 and 1998 do not include estimates of unrecorded exports to other CIS countries.

Table 35. Kyrgyz Republic: Imports of Goods, 1994-98

	1994	1995	1996 Revised	1997 Prel.	1998 QI-QIII Prel.
			(In millions of U.S. dollars)		
Total imports (c.i.f.) 1/	315.5	522.5	837.5	709.3	583.1
Industry	287.9	505.5	809.8	674.7	567.9
Electric energy	0.0	8.6	26.7	23.8	7.6
Oil and gas industry	96.7	162.6	187.6	175.9	109.8
Coal industry	30.7	17.0	25.1	7.0	15.9
Ferrous metallurgy	7.7	17.8	15.0	9.9	12.4
Nonferrous metallurgy	4.5	11.2	8.7	22.4	26.3
Chemical and petrochemical	19.3	30.1	87.4	96.1	77.8
Machine building	58.0	103.6	230.5	154.0	144.0
Lumber and paper	5.0	19.8	26.2	29.2	27.4
Industrial construction materials	4.9	10.1	15.8	13.3	12.7
Light industry	17.3	23.2	16.6	48.4	47.7
Food industry	42.4	96.7	162.0	83.3	79.0
Other industry	1.4	4.8	8.2	11.4	7.4
Agriculture	27.4	17.0	27.7	34.6	15.1
Other	0.2	0.0	0.0	0.0	0.0
			(In percent of total)		
Total imports	100.0	100.0	100.0	100.0	100.0
Industry	91.3	96.7	96.7	95.1	97.4
Electric energy	0.0	1.6	3.2	3.4	1.3
Oil and gas industry	30.6	31.1	22.4	24.8	18.8
Coal industry	9.7	3.3	3.0	1.0	2.7
Ferrous metallurgy	2.4	3.4	1.8	1.4	2.1
Nonferrous metallurgy	1.4	2.1	1.0	3.2	4.5
Chemical and petrochemical	6.1	5.8	10.4	13.5	13.3
Machine building	18.4	19.8	27.5	21.7	24.7
Lumber and paper	1.6	3.8	3.1	4.1	4.7
Industrial construction materials	1.6	1.9	1.9	1.9	2.2
Light industry	5.5	4.4	2.0	6.8	8.2
Food industry	13.4	18.5	19.3	11.7	13.5
Other industry	0.4	0.9	1.0	1.6	1.3
Agriculture	8.7	3.3	3.3	4.9	2.6
Other	0.1	0.0	0.0	0.0	0.0

Sources: Kyrgyz authorities; and Fund staff estimates.

1/ Import data for 1994 and 1995 do not incorporate estimates of unrecorded imports.

Table 36. Kyrgyz Republic: Exports of Goods to CIS Countries, 1994-98

	1994	1995	1996 Revised	1997 Prel.	1998 QI-QIII Prel.
	(In millions of U.S. dollars)				
Total exports 1/	222.8	269.2	393.9	319.3	177.9
Industry	218.8	231.1	333.5	285.7	144.0
Electric energy	63.5	41.0	73.5	83.2	22.5
Oil and gas industry	6.3	1.5	1.6	1.5	1.7
Coal industry	2.8	3.1	3.5	1.8	0.3
Ferrous metallurgy	0.3	3.0	3.8	1.3	0.8
Nonferrous metallurgy	4.8	11.9	24.4	10.4	5.3
Chemical and petrochemical	5.2	9.1	14.9	11.1	5.1
Machine building	32.8	39.5	47.3	49.8	36.1
Lumber and paper	1.1	1.3	1.7	2.8	2.3
Industrial construction materials	17.4	11.4	11.8	26.7	20.0
Light industry	29.7	28.2	38.5	22.7	11.5
Food industry	53.1	77.9	108.1	72.1	36.9
Other industry	1.8	3.3	4.4	2.3	1.3
Agriculture	3.9	38.2	60.4	33.5	33.9
Other	0.1	0.0	0.0	0.0	0.0
	(In percent of total)				
Total exports	100.0	100.0	100.0	100.0	100.0
Industry	98.2	85.8	84.7	89.5	81.0
Electric energy	28.5	15.2	18.7	26.1	12.7
Oil and gas industry	2.8	0.6	0.4	0.5	1.0
Coal industry	1.3	1.2	0.9	0.6	0.2
Ferrous metallurgy	0.1	1.1	1.0	0.4	0.5
Nonferrous metallurgy	2.2	4.4	6.2	3.3	3.0
Chemical and petrochemical	2.3	3.4	3.8	3.5	2.9
Machine building	14.7	14.7	12.0	15.6	20.3
Lumber and paper	0.5	0.5	0.4	0.9	1.3
Industrial construction materials	7.8	4.2	3.0	8.4	11.2
Light industry	13.3	10.5	9.8	7.1	6.5
Food industry	23.8	28.9	27.4	22.6	20.8
Other industry	0.8	1.2	1.1	0.7	0.7
Agriculture	1.8	14.2	15.3	10.5	19.0
Other	0.0	0.0	0.0	0.0	0.0

Sources: Kyrgyz authorities; and Fund staff estimates.

1/ Data for 1997 and 1998 do not include estimates of unrecorded exports to other CIS countries.

Table 37. Kyrgyz Republic: Imports of Goods from CIS Countries, 1994-98

	1994	1995	1996 Revised	1997 Prel.	1998 QI-QIII Prel.
			(In millions of U.S. dollars)		
Imports from CIS (c.i.f.) 1/	208.5	353.8	486.7	435.7	300.5
Industry	206.9	350.0	473.5	422.9	291.1
Electric energy	0.0	8.6	26.7	23.8	7.6
Oil and gas industry	96.1	159.9	183.1	172.7	104.9
Coal industry	30.7	17.0	25.1	6.9	15.8
Ferrous metallurgy	7.6	16.3	14.3	9.1	9.8
Nonferrous metallurgy	4.5	10.1	7.1	16.9	22.3
Chemical and petrochemical	13.6	22.8	47.3	47.6	41.8
Machine building	22.8	46.6	69.3	58.0	39.0
Lumber and paper	4.4	15.8	18.6	18.8	16.5
Industrial construction materials	4.2	8.2	10.9	10.6	9.1
Light industry	10.8	16.0	10.7	11.7	4.3
Food industry	11.8	25.2	57.3	41.9	17.1
Other industry	0.4	3.5	3.1	4.9	2.8
Agriculture	1.4	3.8	13.2	12.8	9.5
Other	0.2	0.0	0.0	0.0	0.0
			(In percent of total)		
Total Imports	100.0	100.0	100.0	100.0	100.0
Industry	99.3	99.0	98.3	97.1	96.9
Electric energy	0.0	2.4	5.5	5.5	2.5
Oil and gas industry	46.1	45.2	33.9	39.6	34.9
Coal industry	14.7	4.8	5.2	1.6	5.3
Ferrous metallurgy	3.6	4.6	1.7	2.1	3.3
Nonferrous metallurgy	2.2	2.9	4.0	3.9	7.4
Chemical and petrochemical	6.5	6.4	6.4	10.9	13.9
Machine building	10.9	13.2	16.6	13.3	13.0
Lumber and paper	2.1	4.5	7.0	4.3	5.5
Industrial construction materials	2.0	2.3	3.4	2.4	3.0
Light industry	5.2	4.5	6.8	2.7	1.4
Food industry	5.7	7.1	6.2	9.6	5.7
Other industry	0.2	1.0	1.6	1.1	0.9
Agriculture	0.7	1.0	1.7	2.9	3.1
Other	0.1	0.0	0.0	0.0	0.0

Sources: Kyrgyz authorities; and Fund staff estimates.

1/ Import data for 1994 and 1995 do not incorporate estimates of unrecorded imports.

Table 38. Kyrgyz Republic: Direction of Trade with CIS Countries, 1994-98
(In millions of U.S. dollars)

	1994			1995			1996 (revised)			1997 (Prel.)			1998 (QI-QIII, Prel.)		
	Imports	Exports	Trade balance	Imports	Exports	Trade balance	Imports	Exports	Trade balance	Imports	Exports	Trade balance	Imports	Exports	Trade balance
Total 1/	206.8	226.0	19.2	353.6	269.2	-84.3	487.0	393.6	-93.4	435.9	319.4	-116.5	300.5	177.9	-122.6
Armenia	0.0	0.1	0.1	0.6	0.0	-0.6	0.0	0.0	0.0	0.3	0.0	-0.3	0.4	0.0	-0.4
Azerbaijan	0.6	1.6	1.0	3.3	2.1	-1.2	1.4	3.2	1.8	2.5	2.8	0.3	6.6	1.9	-4.7
Belarus	2.5	3.8	1.2	5.0	5.0	0.0	6.1	5.6	-0.5	10.3	8.6	-1.7	7.7	4.7	-3.0
Georgia	0.2	0.2	0.0	0.3	0.7	0.4	1.6	0.1	-1.5	3.1	0.6	-2.5	0.3	0.3	0.0
Kazakhstan	57.8	96.4	38.6	112.5	66.8	-45.7	139.5	112.5	-27.0	69.6	87.1	17.5	62.3	60.7	-1.6
Moldova	0.1	0.5	0.4	0.2	1.0	0.8	0.2	0.8	0.6	0.4	0.0	-0.4	0.0	0.1	0.1
Russia	69.2	58.2	-11.0	114.3	104.8	-9.5	174.5	134.6	-39.9	190.8	98.9	-91.9	122.6	64.9	-57.7
Tajikistan	1.1	3.0	2.0	4.8	8.3	3.5	6.3	8.4	2.1	10.0	12.7	2.7	5.8	5.8	0.0
Turkmenistan	9.9	8.4	-1.6	18.6	2.2	-16.4	13.6	3.2	-10.4	15.5	2.6	-12.9	6.5	1.1	-5.4
Ukraine	3.0	9.0	6.0	4.9	8.3	3.4	12.3	9.4	-2.9	4.8	4.6	-0.2	4.6	4.6	0.0
Uzbekistan	62.4	44.8	-17.6	88.9	70.0	-18.9	131.5	115.8	-15.7	128.6	101.5	-27.1	83.7	33.6	-50.0

Sources: Kyrgyz authorities; and Fund staff estimates.
1/ Data for 1997 and 1998 do not include estimates of unrecorded exports to other CIS countries.

Table 39. Kyrgyz Republic: Exports of Goods to Other Countries, 1994-98

	1994	1995	1996 Revised	1997 Prel.	1998 QI-QIII Prel.
			(In millions of U.S. dollars)		
Total exports	117.7	139.7	137.5	284.6	207.8
Industry	110.9	135.0	121.9	272.9	201.0
Ferrous metallurgy	9.0	7.4	2.4	1.7	0.6
Nonferrous metallurgy	47.4	50.7	59.3	205.9	162.6
Chemical and petrochemical	1.5	11.2	6.1	5.4	3.3
Machine building	1.0	5.0	7.6	11.8	10.6
Lumber and paper	0.1	0.6	0.2	0.7	0.5
Industrial construction materials	0.6	0.2	0.3	0.2	0.0
Light industry	48.1	54.4	36.1	38.0	14.1
Food industry	3.2	4.9	9.4	7.5	7.4
Other industry	...	0.6	0.5	1.7	1.9
Agriculture	6.8	4.7	15.6	11.7	6.8
Other	0.0	0.0	0.0	0.0	0.0
			(In percent of total exports)		
Total exports	100.0	100.0	100.0	100.0	100.0
Industry	94.2	96.6	88.7	95.9	96.7
Ferrous metallurgy	7.6	5.3	1.7	0.6	0.3
Nonferrous metallurgy	40.3	36.3	43.1	72.3	78.3
Chemical and petrochemical	1.3	8.0	4.4	1.9	1.6
Machine building	0.8	3.6	5.5	4.1	5.1
Lumber and paper	0.1	0.4	0.1	0.2	0.2
Industrial construction materials	0.5	0.1	0.2	0.1	0.0
Light industry	40.9	38.9	26.3	13.4	6.8
Food industry	2.7	3.5	6.8	2.6	3.6
Other industry	...	0.4	0.4	0.6	0.9
Agriculture	5.8	3.4	11.3	4.1	3.3
Other	0.0	0.0	0.0	0.0	0.0

Sources: Kyrgyz authorities; and Fund staff estimates.

Table 40. Kyrgyz Republic: Imports of Goods from Other Countries, 1994-98

	1994	1995	1996 Revised	1997 Prel.	1998 QI-QIII Prel.
			(In millions of U.S. dollars)		
Imports from non-CIS (c.i.f.) 1/	107.4	168.9	350.9	273.5	282.5
Industry	81.0	155.6	336.4	251.7	276.9
Electric energy	0.0	0.0	0.0	0.0	0.0
Oil and gas industry	0.6	2.6	4.5	3.2	4.9
Coal industry	0.0	0.0	0.0	0.1	0.0
Ferrous metallurgy	0.1	1.5	0.7	0.8	2.6
Nonferrous metallurgy	...	1.1	1.6	5.5	4.1
Chemical and petrochemical	5.7	7.3	40.1	48.5	36.0
Machine building	35.2	57.0	161.2	96.0	105.0
Lumber and paper	0.5	4.0	7.6	10.4	10.9
Industrial construction materials	0.7	1.9	5.0	2.7	3.6
Light industry	6.5	7.2	5.9	36.6	43.4
Food industry	30.7	71.6	104.7	41.4	61.8
Other industry	1.0	1.4	5.1	6.5	4.6
Agriculture	26.4	13.3	14.5	21.8	5.7
Other	0.0	0.0	0.0	0.0	0.0
			(In percent of total exports)		
Total imports	100.0	100.0	100.0	100.0	100.0
Industry	75.4	92.1	95.9	92.0	98.0
Electric energy	0.0	0.0	0.0	0.0	0.0
Oil and gas industry	0.0	1.5	1.3	1.2	1.7
Coal industry	0.0	0.0	0.0	0.0	0.0
Ferrous metallurgy	0.1	0.9	0.2	0.3	0.9
Nonferrous metallurgy	...	0.7	0.5	2.0	1.4
Chemical and petrochemical	5.3	4.3	11.4	17.7	12.7
Machine building	32.8	33.7	45.9	35.1	37.1
Lumber and paper	0.5	2.4	2.2	3.8	3.9
Industrial construction materials	0.7	1.1	1.4	1.0	1.3
Light industry	6.1	4.3	1.7	13.4	15.4
Food industry	28.6	42.4	29.8	15.1	21.9
Other industry	0.9	0.8	1.5	2.4	1.6
Agriculture	24.6	7.9	4.1	8.0	2.0
Other	0.0	0.0	0.0	0.0	0.0

Sources: Kyrgyz authorities; and Fund staff estimates.

1/ Import data for 1994 and 1995 do not incorporate estimates of unrecorded imports.

Table 41. Kyrgyz Republic: Direction of Trade with Other Countries, 1994-98
(In millions of U.S. dollars)

	1994	1995	1996 Revised	1997 Prel.	1998 QI-QIII Prel.
			Exports		
Total	117.4	141.5	137.2	284.6	207.8
China	56.7	68.5	36.4	31.6	11.1
United Kingdom	29.3	27.4	5.3	1.4	0.3
United States	0.6	4.0	17.6	17.9	7.6
France	2.2	3.6	1.8	0.3	4.7
Turkey	4.0	3.2	5.3	8.0	5.8
Italy	1.8	2.9	2.5	2.6	2.0
Germany	6.4	2.1	28.1	18.1	145.9
Poland	0.6	1.3	0.5	1.5	0.3
Switzerland	0.3	1.8	0.9	162.3	0.2
Other	15.5	26.7	38.8	40.9	30.0
			Imports 1/		
Total	107.5	168.8	350.8	273.5	282.5
Turkey	14.4	38.3	47.6	43.7	31.4
Cuba	11.4	22.7	22.1	0.0	10.3
United States	3.5	19.1	35.7	39.6	29.7
Germany	6.8	18.7	31.8	38.4	40.0
Japan	2.8	7.2	12.5	2.7	2.7
China	10.8	6.3	7.8	32.5	34.2
Canada	1.6	5.9	42.5	5.2	8.6
Other	56.2	50.6	150.8	111.4	125.6

Source: Data provided by the Kyrgyz authorities.
1/ Import data for 1994 and 1995 do not incorporate estimate of unrecorded imports.

Table 42. Kyrgyz Republic: Production, Imports and Exports of Energy Products, 1994-98

	1994	1995	1996 Revised	1997 Prel.	1998 QI-QIII Prel.
1. Natural gas (million m3)					
Domestic production	39.0	35.7	25.9	23.7	13.0
Imports	856.1	846.6	1,027.3	982.3	662.8
Exports	10.1	0.0	0.0	0.0	0.0
2. Liquefied gas (thousand tons)					
Domestic production	0.0	0.0	0.0	0.0	0.0
Imports	1.1	9.5	16.4	13.5	0.1
Exports	0.0	0.0	0.0	0.0	0.0
3. Coal (thousand tons)					
Domestic production	746.0	413.0	410.0	538.0	247.3
Imports	1,355.4	499.7	844.5	290.5	723.0
Exports	170.6	170.6	100.4	78.0	14.0
4. Petroleum products (thousand tons)					
Domestic production					
Crude petroleum	88.2	88.5	84.0	84.7	58.3
Gasoline	0.0	0.0	2.8	47.8	35.8
Kerosene	0.0	0.0	0.0	0.0	0.0
Mazut	0.0	0.0	4.3	37.6	25.4
Diesel fuel	0.0	0.0	5.3	26.3	23.8
Imports					
Crude petroleum	0.0	3.0	12.1	70.2	23.8
Gasoline	81.8	211.8	174.4	125.6	109.8
Kerosene	12.1	62.2	75.0	41.3	44.7
Mazut	94.6	92.0	165.3	65.5	79.6
Diesel fuel	58.9	133.1	132.6	94.4	53.3
Exports					
Crude petroleum	0.1	24.6	21.1	0.0	0.0
Gasoline	0.5	0.5	0.8	0.3	5.1
Kerosene	0.0	0.0	0.0	0.0	2.4
Mazut	0.3	0.0	0.0	0.0	0.0
Diesel fuel	0.0	0.7	0.1	0.8	1.0

Source: Kyrgyz authorities.

Table 43. Kyrgyz Republic: External Public Debt and Debt Service Flows, 1994-98 1/

(In millions of U.S. dollars)

	1994	1995	1996 Revised	1997 Prel.	1998 QI-QII Prel.
Debt outstanding (end-of-period stock)	413.8	584.7	732.6	956.6	1,003.0
Multilateral	161.5	300.9	426.6	599.1	641.7
Concessional	70.8	234.0	343.3	500.4	544.3
IDA	57.2	139.6	193.5	255.2	267.1
ESAF	13.6	60.4	83.4	127.2	127.2
Others	0.0	34.0	66.4	118.0	150.0
Non-concessional	90.7	66.9	83.3	98.7	97.4
IBRD	0.0	0.0	0.0	0.0	0.0
IMF	62.9	66.6	57.3	49.2	41.6
Others	27.8	0.3	26.0	49.5	55.8
Bilateral	252.3	283.8	306.0	357.5	361.3
CIS (non-concessional)	181.0	167.5	140.6	178.5	173.5
Non-CIS	71.3	116.3	165.4	179.0	187.8
Concessional	41.0	78.9	113.6	117.0	122.2
Non-concessional	30.3	37.4	51.8	62.0	65.6
Disbursements (flows)	122.8	207.7	180.0	210.9	63.2
Multilateral	50.2	162.7	134.2	180.6	50.0
Concessional	50.2	162.7	117.4	157.1	43.7
IDA	36.6	82.4	57.5	61.7	11.9
ESAF	13.6	46.3	23.5	43.8	0.0
Others	0.0	34.0	36.4	51.6	31.8
Non-concessional	0.0	0.0	16.8	23.5	6.3
IBRD	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	16.8	23.5	6.3
Bilateral	72.6	45.0	45.8	30.3	13.2
CIS (non-concessional)	10.5	0.0	0.0	23.1	0.0
Non-CIS	62.1	45.0	45.8	7.2	13.2
Concessional	41.0	37.9	31.2	7.2	5.5
Non-concessional	21.1	7.1	14.6	0.0	7.7
Interest payments due (flows)	17.4	22.2	18.5	20.8	11.3
Multilateral	6.0	6.4	5.2	6.2	3.7
IDA/IBRD	0.2	0.6	1.4	1.8	1.1
IMF	3.2	3.9	3.2	3.1	1.4
Others	2.6	1.9	0.6	1.3	1.2
Bilateral	11.4	15.8	13.3	14.6	7.6
CIS	10.6	13.9	7.5	7.1	3.9
Non-CIS	0.8	1.9	5.8	7.5	3.7
Amortization due (flows)	0.6	37.3	45.5	20.3	16.8
Multilateral	0.0	0.0	3.9	9.9	7.6
IDA/IBRD	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	3.9	9.8	7.5
Others	0.0	0.0	0.0	0.1	0.1
Bilateral	0.6	37.3	41.6	10.4	9.2
CIS	0.0	37.3	36.6	4.0	5.5
Non-CIS	0.6	0.0	5.0	6.4	3.7

Sources: Kyrgyz authorities; and Fund staff calculations.

1/ Includes only public and publicly guaranteed debt.

Table 44. Kyrgyz Republic: Production, Export and Import of Electricity, 1994–98
(In million of Kilowatts per hour)

	1994	1995	1996	1997					1998		
				QI	QII	QIII	QIV	Year	QI	QII	QIII
Electricity											
Domestic production	12,932.0	12,349.0	13,759.0	4,333.2	2,337.2	2,851.6	3,062.5	12,584.5	3,946.6	1,907.5	2,333.2
Exports	2,376.9	1,622.0	2,880.8	222.8	541.6	1,414.8	238.2	2,417.4	0.0	17.9	812.2
Imports	0.0	254.4	815.1	62.2	125.0	107.0	420.7	714.9	167.8	56.3	78.6

Source: Kyrgyz authorities.

Table 45. Kyrgyz Republic: Imports and Exports Associated with the "Shuttle Trade", 1994-98
(In millions of U.S. dollars)

	1994	1995	1996	1997 (Prel.)					1998	
				QI	QII	QIII	QIV	Year	QI	QII
Imports	87.3	36.6	54.2	7.3	11.4	25.9	37.8	82.4	26.9	22.8
Included in official statistics	0.0	0.0	0.0	3.7	6.1	18.6	31.0	59.4	20.2	18.0
Estimated (added to official statistics)	87.3	36.6	54.2	3.6	5.3	7.3	6.8	23.0	6.7	4.8
Exports	0.0	0.0	0.0	12.6	14.4	18.9	12.5	58.4	8.8	12.5
Included in official statistics	0.0	0.0	0.0	8.4	6.6	9.1	7.3	31.4	4.6	5.1
Estimated (added to official statistics)	0.0	0.0	0.0	4.2	7.8	9.8	5.2	27.0	4.2	7.4

Source: Kyrgyz authorities.

Table 46. Kyrgyz Republic: Foreign Direct Investment by Country of Origin, 1995–98
(In millions of U.S. dollars)

	1995	1996	1997	1998 QI-QIII
Total direct foreign investment	96.1	46.8	83.0	36.8
CIS countries	0.3	1.3	2.8	...
Belarus	0.0	0.0	0.0	...
Kazakhstan	0.0	0.3	1.4	...
Russia	0.2	0.8	1.2	...
Ukraine	0.0	0.0	0.0	...
Uzbekistan	0.0	0.2	0.2	...
Non-CIS countries	95.8	45.5	80.3	...
United States	0.0	4.4	6.0	...
Canada	92.5	19.2	31.3	...
European Union	0.5	3.4	18.4	...
of which:				
Germany	0.2	0.7	4.4	...
United Kingdom	0.0	0.6	10.2	...
Italy	0.0	0.8	3.0	...
Switzerland	2.0	4.3	0.9	...
Turkey	0.1	10.9	16.2	...
Japan	0.0	0.2	0.5	...
India	0.0	0.0	1.1	...
Pakistan	0.0	0.0	0.3	...
Malaysia	0.0	0.1	2.1	...
Others	0.7	2.8	3.6	...

Sources: National Bank of the Kyrgyz Republic.

Table 47. Kyrgyz Republic: Foreign Direct Investment in Selected BRO Countries, 1993–97
(In percent of GDP)

	1993	1994	1995	1996	1997
Armenia	0.0	0.4	1.5	1.1	3.1
Azerbaijan	0.0	1.7	11.4	18.9	16.2
Estonia	9.7	8.7	5.6	3.4	5.5
Georgia	0.0	0.6	0.2	0.4	1.2
Kazakhstan	10.1	5.4	5.8	5.4	5.8
Kyrgyz Republic	**1.0**	**4.1**	**6.4**	**2.5**	**4.7**
Latvia	2.4	4.3	3.8	7.1	7.2
Lithuania	0.8	1.4	0.9	1.9	3.7
Moldova	1.0	1.3	4.3	2.7	3.6
Russia	0.5	0.2	0.6	0.6	1.4
Ukraine	1.4	0.4	0.7	1.2	1.2
Uzbekistan	0.9	1.3	0.9	0.3	1.3
Memorandum item:					
Unweighted average forthe selected countries	2.3	2.5	3.5	3.8	4.6

Sources: IMF, World Economic Outlook; and Fund staff estimates.

Table 48. Kyrgz Republic: Average Monthly Wages in Selected BRO Countries, 1994–98
(In U.S. dollars)

	1994	1995	1996	1997	1998 QII
Armenia	7	15	20	24	29
Azerbaijan	10	13	20	31	43
Belarus	2	65	91	86	110
Estonia	134	207	248	258	296
Georgia	...	8	18	27	31
Kazakhstan	48	78	101	114	126
Kyrgyz Republic	**22**	**36**	**39**	**36**	**40**
Lithuania	92	129	172	213	263
Latvia	138	179	192	214	238
Moldova	27	32	41	47	53
Russia	146	168	183	173	174
Tajikistan	17	141	9	...	11
Turkmenistan	...	5	15	34	53
Ukraine	31	55	75	84	76
Uzbekistan	31	36	54	56	...
Memorandum item:					
Unweighted average for the selected countries	54	78	85	100	110

Source: Fund staff estimates.