

Kyrgyz Republic: Third Review Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director of the Kyrgyz Republic

In the context of the third review under the Poverty Reduction and Growth Facility and request for a waiver of performance criteria, the following documents have been released and are included in this package:

- the staff report for the third review under the Poverty Reduction and Growth Facility and request for a waiver of performance criteria, prepared by a staff team of the IMF, following discussions that ended on **May 8, 2003**, with the officials of the Kyrgyz Republic on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on June 30, 2003.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement of **July 16, 2003** updating information on recent developments.
- a Press Release summarizing the **views of the Executive Board as expressed during its July 16, 2003 discussion** of the staff report that completed the review.
- a statement by the Executive Director of the Kyrgyz Republic.

The document(s) listed below have been or will be separately released.

Supplementary Memorandum of Economic Policies by the authorities of the
Kyrgyz Republic*

Supplementary Technical Memorandum of Understanding*

*May also be included in the Staff Report

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

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INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

**Third Review Under the Poverty Reduction and Growth Facility and Request for
Waiver of Performance Criteria**

Prepared by the European II and Policy Development and Review Departments
(in consultation with other departments)

Approved by Julian Berengaut and Michael Hadjimichael

June 30, 2003

- Discussions for the third review under the Poverty Reduction and Growth Facility (PRGF) arrangement were held in Bishkek from April 25-May 8, 2003. The staff team consisted of Mr. Saavalainen (head), Mr. McDonald, Mr. Zeuner, Ms. ten Berge, and Ms. Loukoianova (EP) (all EU2); Ms. Fernandez (EP, FAD); Mr. Aiyar (EP, PDR); and Mr. Kenjeev (BLS-interpreter). Mr. Mukhopadhyay, the Fund's resident representative in Bishkek, assisted the mission.
- The mission held meetings with President Akayev, Prime Minister Tanaev, Deputy Prime Minister Otorbaev, Minister of Finance Abildaev, Governor Sarbanov of the National Bank (NBKR), other senior officials, members of parliament, and representatives of civil society, private and public enterprises, the banking sector, and the diplomatic community.
- Relations with the IMF, World Bank, Asian Development Bank, and European Bank for Reconstruction and Development are summarized in Appendixes I through IV. Technical assistance provided by the IMF is summarized in Appendix V and statistical issues are addressed in Appendix VI.
- The report's main contributors are Tapio Saavalainen, Brad McDonald, and Joerg Zeuner, with inputs from Joy ten Berge, Shekhar Aiyar, Gilda Fernandez, and Elena Loukoianova.

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EXECUTIVE SUMMARY

Following a slight decline of real GDP in 2002 owing to onetime factors, growth recovered, reaching 4½ percent in the first four months of 2003. Strong money demand has allowed remonetization with low inflation. Official reserves rose to 4.3 months of imports at end-2002, from 3.9 months at end-2001, as the current account improved and the Paris Club rescheduling reduced debt service.

All end-March 2003 quantitative performance criteria were observed. The targets on central bank net international reserves and net domestic assets were met comfortably, aided by the fiscal overperformance reflecting better-than-expected tax collections. The measures underlying two structural performance criteria were completed with a brief delay, while a third performance criterion—the publication of a Medium-Term Fiscal Framework—was observed.

Discussions for the third review focused on refining program objectives, setting quantitative targets for the rest of the second annual program, and strengthening structural reforms. While the 2003 growth projection of 5.2 percent remains unchanged, the solid program performance so far allowed for slightly lower inflation and current account deficit targets. The fiscal deficit for the third quarter of 2003 was adjusted to accommodate spending related to the recent severe landslides in the south of the country. However, with the over performance through March, the improvements in tax collection, and the expected stronger growth of the tax base in the second half of the year, no adjustment was needed in the annual 2003 fiscal deficit target. The monetary program remains broadly unchanged.

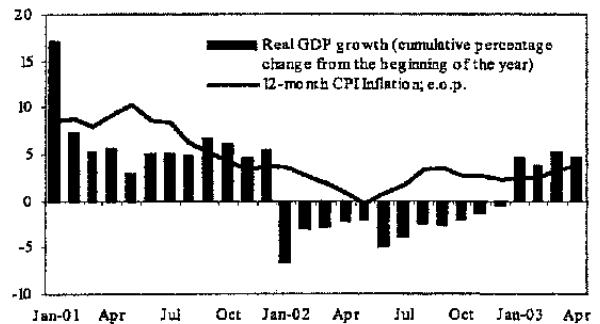
Governance and banking sector reforms are moving ahead, although slowly. On the President's initiative, a National Integrity Council was established to oversee and deepen governance reform. On the banking sector, the authorities intend to undertake a depositor compensation scheme with respect to the former Soviet Savings Bank and three commercial banks that went bankrupt in the aftermath of the Russian crisis. In line with FSAP recommendations, the Law on Audits is to be amended to give the central bank a greater role in supervising bank audits.

The quasi-fiscal deficit of the electricity sector, which reached 13 percent of GDP in 2002, will now be monitored under the Fund-supported program. An indicative target was set under which this deficit would be reduced to 11.7 percent of GDP in 2003. On trade policy, the authorities reaffirmed their commitment to a liberal trade regime and are taking steps to correct recent reversals in trade liberalization.

I. PERFORMANCE UNDER THE PROGRAM

1. **Macroeconomic performance continues to be strong.** While real GDP contracted by 0.5 percent in 2002 because of a large landslide in the Kumtor gold mine and exceptionally low power generation¹, the nongold, nonenergy output increased by 3.9 percent. In the first four months of 2003, real GDP growth rebounded to 4.6 percent.² Nongold industry led the recovery, growing by nearly 15 percent over the same period a year ago. Main contributions came from the power sector and manufacturing, the latter led by food processing, production of construction materials, and paper. Kumtor's gold production is expected to recover in the second half of the year.

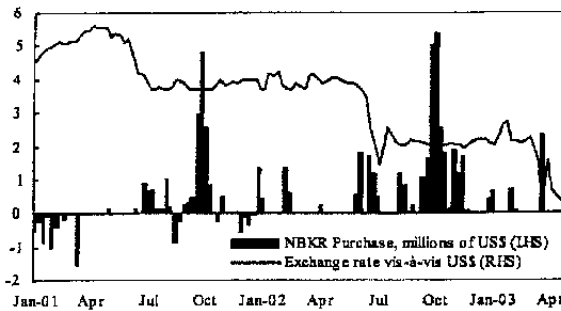
Real GDP Growth and 12-Month CPI Inflation
(In percent)



Source: Kyrgyz authorities.

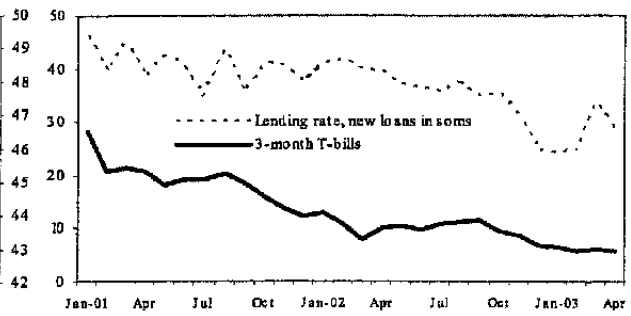
2. **The 12-month rate of inflation was 4.1 percent in May, up from 2.3 percent at end-2002.** The cold and rainy spring kept food prices up, as inventories slimmed and the new harvest was expected to be delayed. However, the rate of inflation was still low compared with that of key trade partners, reflecting continuing strong demand for local currency, as evidenced by the 4.4 percent appreciation of the nominal exchange rate vis-à-vis the

Average Exchange Rate vis-à-vis the US dollar
and NBKR Purchases



Source: Kyrgyz authorities.

Interest Rates on Three-Month T-Bills
and Bank Lending



Source: Kyrgyz authorities.

¹ This was largely because abundant rainfall in Uzbekistan and Kazakhstan reduced their irrigation-related demand for water release from Kyrgyz reservoirs.

² Excluding the Kumtor gold mine, where production remained low, real GDP grew by 5.9 percent.

U.S. dollar during January-April, 2003.³ The nominal interest rate on three-month treasury bills declined from 7.0 percent at end-2002 to 5.8 percent at end-April. Nevertheless, real interest rates on bank lending were almost 30 percent, owing to high credit risk and banks' weak capital ratios and inadequate competition.⁴

3. **The current account deficit narrowed to 2.6 percent of GDP in 2002, from 3.3 percent in 2001, despite a weaker trade balance.** Strong growth of exports of nonfactor services (about 60 percent) and higher gold prices more than compensated for lower volumes of gold and energy exports. The capital account recorded a surplus, with continued project financing from donors, although foreign direct investments remained low. Owing in part to the Paris Club flow reschedulings, the NBKR's gross reserves increased to 4.3 months of imports during 2002, from 3.9 months in 2001. Preliminary trade data for the first quarter of 2003 suggest a slightly higher current account deficit than a year ago.

4. **Program performance continues to be solid.** The end-March 2003 targets on NBKR net international reserves (NIR) and net domestic assets (NDA) were observed with comfortable margins. The adjusted program floor for NIR was exceeded by 7 percent of reserve money, as the NBKR purchased \$9 million from the foreign exchange market in October 2002-March 2003. Net domestic assets were below the adjusted program ceiling by 3½ percent of reserve money, as part of the foreign exchange inflow was sterilized through open market operations and higher government deposits in the central bank.

5. **All quantitative fiscal performance criteria were met.** The cumulative fiscal deficit since the beginning of the second-year program (October 2002) was 0.4 percent of GDP below the ceiling, mainly because of better-than-targeted tax collection. Improvements in tax administration boosted income tax revenue, more than offsetting the lower-than-expected VAT and excise tax collections that resulted from higher VAT refunds and lower oil imports.⁵ There were no budgetary arrears subject to performance criteria, and the Social Fund arrears to the Medical Insurance Fund were reduced as programmed.

6. **The two structural performance criteria in the fiscal area were observed with short delays.** The law extending the VAT to large agricultural producers' domestic sales was passed by the upper house before end-March, but was signed into law by the President only on April 14. The new property tax law was passed by parliament on April 8, a week after the deadline, and enacted only on April 30. As regards the third structural performance criterion,

³ The Kyrgyz Republic's 2 percent inflation in 2002 compared to 7 percent for Kazakhstan, 15 percent for Russia, and 27 percent for Uzbekistan.

⁴ Competition is expected to increase with the recent entry of two Kazakh banks.

⁵ The reduction of arrears on VAT refunds was an end-March structural benchmark.

the government approved and published the Medium-Term Fiscal Framework (MTFF) before the end-March deadline.⁶ ⁷ Parliament held a public hearing on the MTFF on May 28.

7. **Governance and banking sector reforms are moving ahead, albeit slowly.** The President established a National Integrity Council, which is to develop initiatives and follow through on the governance reforms incorporated into the various programs supported by the IMF, the World Bank, and the AsDB. The publication of financial statements and audit reports for the 10 largest state-owned companies and of details on public procurements exceeding \$20,000 has enhanced fiscal transparency. On banking reform, the NBKR announced the required level of own-capital (defined as tier 1 capital less cross-shareholdings in any financial institution) would be raised to some 30 million effective July 1, 2003. In addition, the regulations of the Arbitration Law were extended to cover arbitration of commercial disputes (a structural benchmark for end-March 2003). On the other hand, the authorities were unable to issue a privatization tender for Kairat Bank by end-March 2003 (a structural benchmark) as the preparation process, including the external audit of the bank, requires more time.

8. **On other privatizations, the authorities have distributed 13 tender document packages for KyrgyzTelekom, all to foreign investors.** The deadline for presenting bids is end-June 2003 and the winner will be selected based on price and other criteria, including presentation of a modernization plan for the company. Privatization in the form of sale of assets of any of the four distribution companies of the unbundled KyrgyzEnergO appears unlikely. The authorities—with the support of the World Bank—now intend to enter concession agreements instead of direct privatizations in restructuring the power sector. A proposal to sell KyrgyzGas remains before the parliament.

II. POLICY DISCUSSIONS

9. **With the program largely on track, the staff and authorities concluded that the overall policy strategy described in EBS/03/13 remains appropriate.** Thus, discussions for the third review focused on refining program objectives, setting quantitative targets for

⁶ Based on the National Poverty Reduction Strategy (NPRS), the MTFF is designed to achieve economic growth of 5 percent, inflation of not more than 4 percent a year, and decreasing debt ratios. Underlying the MTFF is an increase in social spending to 17½ percent of GDP in 2006, from 14½ percent in 2002 (see Table 8), and a 2 percentage point increase in the ratio of tax revenues to GDP that mainly reflects the extension of the VAT to large-scale agriculture, implementation of the new property tax, and gradual improvements in tax administration.

⁷ To further strengthen fiscal planning, the Ministry of Finance has also set up a manual commitment control and arrears tracking system (a structural benchmark for end-March).

the rest of the second annual program, and strengthening the structural reform agenda. On the macroeconomic framework, the expected economic recovery was confirmed and the authorities agreed the 5.2 percent growth rate underlying the 2003 program remained appropriate. The lower-than-projected inflation outturn in 2002 suggested a slight decrease in the 12-month inflation objective for 2003—from 4.4 percent to 4.1 percent. Developments in the external sector and the satisfactory fiscal performance allowed for a more ambitious target for the 2003 current account deficit, down by 1 percentage point to 3.4 percent of GDP.

A. Fiscal Policy

10. **Discussions on the fiscal program centered on the deficit and revenue prospects.** The authorities foresaw that spending pressures would lead to a fiscal deficit in the third quarter larger than originally programmed. This was mainly because of the need to cover the costs of the recent large landslides in the south of the country and the revised timing of the Public Investment Program (PIP) as agreed with the donors.⁸ For these reasons, the third quarter fiscal deficit target was increased by 0.4 percent of GDP. Nevertheless, the earlier overperformance and the expected strengthening of the tax base led the authorities to agree that the reduction of the fiscal deficit to 4.8 percent of GDP in 2003, from 5.4 percent in 2002, remained feasible.

11. **The strong performance in tax collections justified an increase of the state tax revenue target by 0.2 percentage points, to 14.8 percent of GDP in 2003.** This revision is less than the overperformance in 2002 because of the expected lower profit tax collection from the Kumtor gold mine and the energy sector. To a lesser extent, the delays in implementing the new property tax and the VAT extension to large agricultural producers will also hold down revenue expectations. Otherwise, tax policy discussions focused on the presumptive tax system and excise tax measures. To strengthen revenue collection and reduce the scope for corruption, the authorities proposed to extend the presumptive tax to three hard-to-tax business categories: cafes, bars, and minivan transport services. The staff expressed concerns that extending the presumptive tax system could undermine the regular tax regime. In response, the authorities committed to prepare a strategy for improving small enterprise reporting and accounting as a means to facilitate their integration into the regular tax system. To curb smuggling, the authorities had reduced excise tax rates on petroleum products and aligned their rates with those of neighboring Kazakhstan. To balance the revenue impact—but also for protectionist reasons—the authorities had increased excise tax rates on cigarettes imported from some non-WTO member countries. In response to the mission's concern over the introduction of different excise tax rates on imported and domestically produced goods,

⁸ The revised program accommodates about \$3 million in spending for damages from landslides and flooding. The authorities have requested support from donors to cover the costs, which may total \$10 million.

the authorities intend to remove this trade distortion by replacing the specific excise tax with a nondiscriminatory ad valorem tax.

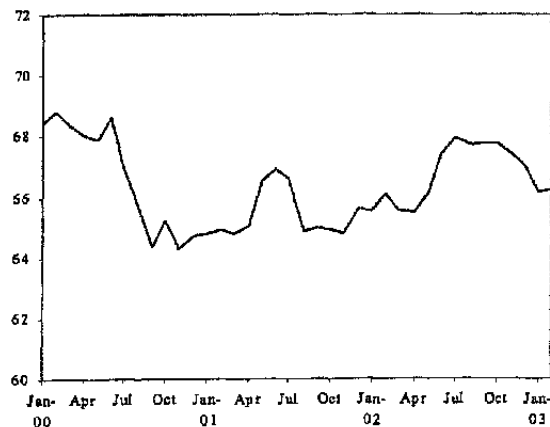
12. **Expenditure policy will continue to support the NPRS spending priorities.** The 2003 program allows for a 15 percent increase of government wages in the social sector, a 20 percent increase in key social benefits, and a 10 percent average increase in pensions. The increase in pension benefits ranged from 5 to 15 percent, with the poorest pensioners receiving the largest increase.⁹ Overall, social spending would increase by 0.7 percent of GDP in 2003.

B. Monetary and Exchange Rate Policies

13. **The authorities agreed to maintain their cautious monetary policy stance.** Based on a projected 8 percent increase of (som) money demand during 2003, revisions to the monetary program were minor. The programmed 12-month growth rate of reserve money continues to be 6 percent, while som broad money is projected to grow by 17 percent, assuming faster financial deepening than projected earlier. Changes in the performance criteria on NIR and NDA mainly reflect the new schedule of donor disbursements. The NBKR would accumulate government deposits to partially sterilize these expected inflows. In managing liquidity in the banking system, the NBKR had started to use more actively treasury bills in open market operations and reduced its reliance on foreign exchange interventions. The NBKR noted the doubling of the stock of short-term securities, which reflected the more active cooperation with the government, had increased its capacity for monetary policy operations.

14. **The staff agreed with the authorities that the recent nominal appreciation of the som against the U.S. dollar is not a cause for concern.** The relatively low Kyrgyz inflation has brought about some depreciation of the real effective exchange rate during the program period as both the Russian ruble and the Kazakh tenge appreciated against the U.S. dollar as well.

Real Effective Exchange Rate 1/



Sources: INS and staff estimates.

1/ As proxied by the CPI-based real exchange rates relative to the U.S. dollar (50 percent weight), Russian ruble (25 percent), and Kazakh tenge (25 percent).

⁹ The average monthly pension in May 2003 was about som 650, or \$15.

C. External Policies

15. **The current account deficit for 2003 is now projected at 3½ percent of GDP—about one percentage point less than under the current program, but higher than the 2002 outcome.** A weaker net services balance and lower net transfers would outweigh an improved trade balance stemming from the expected rebound in gold exports. Spending by the military base is projected to flatten out, dampening the growth of services exports, while the transport bill will continue to rise. A capital account (cash) surplus, mainly due to PIP disbursements and Paris Club reschedulings, would help cover the current account deficit. With the Fund and World Bank disbursements, the program remains fully financed in 2003, allowing a further build-up of gross official reserves to 4½ months of imports.

16. **The staff stressed that the declining trend in gold production argued for active policies to help diversify the country's export base and for preserving the competitiveness of Kyrgyz producers.** In addition, greater co-operation with neighboring countries to promote bilateral- and transit-trade was needed—a task for which the Kyrgyz Republic required assistance from the international community. The staff emphasized that preserving a liberal, low-tariff trade regime was the best way to build support from the international community to promote regional trade cooperation and reduce trade barriers. The staff noted that seasonal tariffs on flour, which had been reintroduced for February-March 2003, were counter to the interests of domestic consumers and food processors and had introduced protectionism into the Kyrgyz Republic's otherwise liberal trade policy. The authorities committed to maintain the liberal trade regime and not to re-introduce seasonal tariffs without first discussing them with the Fund staff, and then only if consistent with their WTO obligations.

17. **The authorities' debt reduction strategy remains on track (Box 1).** The estimates from an updated debt sustainability analysis using the revised balance of payments projections are similar to the results presented in EBS/03/13. Staff emphasized that attaining the projected outcome would require strong program compliance—especially regarding fiscal consolidation and progress in governance and banking reforms to improve the business climate and thus support investment and growth.

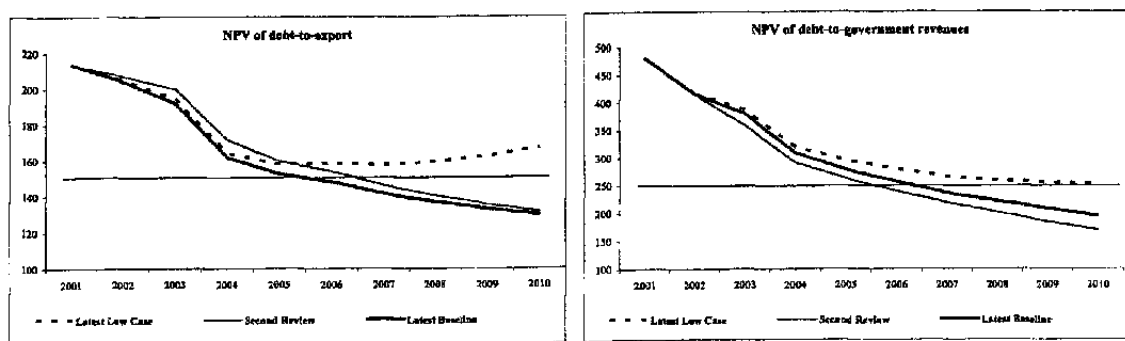
III. STRUCTURAL REFORM

18. **Discussions on structural reform focused on governance, banking, and the electricity sector's quasi-fiscal deficit.** The authorities recognized that the perceived correlation of government effectiveness and per capita GDP in transition countries provided strong motivation for pressing ahead with reforms in this area.

19. **The staff stressed that improving governance and reducing corruption were critical to strengthening the business climate.** The recently-established National Integrity Council is expected to involve civil society as it promotes awareness of governance problems

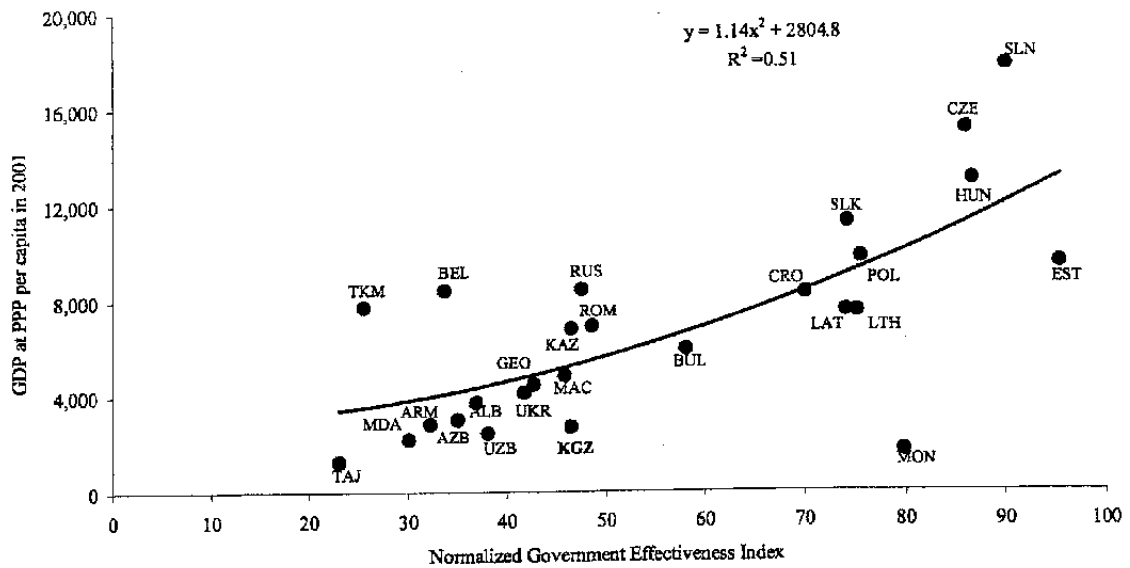
Box 1: Debt Sustainability

The revised balance of payments projections and the baseline macroeconomic framework (with 5 percent annual real growth and 4 percent annual export volume growth) were used to update the debt sustainability analysis. The staff used a low-case scenario (2.5 percent growth and 1.7 percent export volume growth) to assess the sensitivity of the projections. The results are similar to the previous forecast (EBS/03/13). Under the baseline scenario, assuming Paris Club concessional debt stock relief, the NPV of debt-to-exports ratio could fall below the 150 percent HIPC threshold by 2006—one year earlier than under previous simulations. This outcome mainly reflects a better-than-expected export performance in 2002, and similarly higher export levels in the medium-term. The NPV of debt-to-fiscal revenue ratio would fall below the 250 percent HIPC threshold by 2007, a year later than projected earlier. This is mainly because the projected NPV of debt is now slightly larger in the outer years, reflecting the revised debt retirement schedule and somewhat lower revenue projections. Under the low case scenario with policy slippages, higher inflation, and lower output and export growth, the NPV debt-to-exports ratio would start increasing again in the second half of the decade, even with Paris Club debt stock relief.



and deepens reforms. To better link the reform measures to medium-term policy planning in the ministries, the authorities agreed to shift the leadership of the governance reform from the Presidential Administration to the government. Reform of the Ministry of Finance is moving ahead; it is intended to serve as a model for establishing a clear distinction between political assistance and to provide a legal framework and protection for the civil service. Functional reviews of several line ministries, which have been completed with foreign assistance, are helping to clarify departmental responsibilities. However, the staff noted that more substantive reforms are needed, including those following the Ministry of Finance model and the establishment of effective finance offices in the line ministries. The lead in reforming the public administration at large lies with the World Bank under its Governance Structural Adjustment Credit (GSAC) operation.

Government Effectiveness in Transition Countries 1/



1/ Government effectiveness indicator combines perceptions of the quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment to policies. The index is calculated based on data for 2000 and 2001.

Sources: WEO and World Bank

20. On the banking reform program (described in EBS/03/13), several measures are under preparation. First, the authorities intend to amend the audit law to give the NBKR a greater role in supervising bank audits (a structural benchmark for end-September), as recommended by the recent FSAP mission.¹⁰ Second, the authorities underlined their commitment to privatize Kairat Bank, although they need more time to ensure the quality of the process. They expect to issue the tender by end-September 2003 (a structural benchmark). Third, the authorities are preparing to submit to parliament by end-September legislative amendments that would eliminate the 15 percent ceiling that applies to the ownership of commercial banks by legal entities. In addition, the central bank intends to draft an action plan by mid-2004 for preparing the commercial banks for the eventual introduction of a deposit insurance scheme. Discussions on deposit insurance centered on staff concerns that these preparations may be premature, as several conditions needed for the successful introduction of such a scheme are unlikely to be met for some time.

¹⁰ For this purpose, the authorities will submit to parliament amendments to the Law on Audit to empower the NBKR to reject, require replacement, and if necessary appoint external auditors, and to require auditors to disclose and discuss their findings at the NBKR's request.

21. The authorities also proposed a scheme to complete the compensation of depositors of the former Soviet Savings Bank, as required by a 1997 Parliamentary decision (Box 2). In addition, individual depositors in three banks that went bankrupt in the aftermath of the Russian crisis will be partially compensated under the same scheme. The staff expressed concerns over the moral hazard involved in bailing out depositors. However, it acknowledged that the authorities could use an early decision on depositor compensation to avoid more disruptive schemes that could be presented in the run-up to the 2005 elections. Looking forward, the staff underlined the important role of strong bank supervision. Bank supervisors must detect problem banks early and react promptly to avoid similarly large failures.

Box 2. Depositor Compensation

In 1992, the former Soviet Savings Bank became KyrgyzEiBank, which went bankrupt in 1996. Its deposits were transferred to the Kyrgyz Savings and Settlement Corporation (SSC). High inflation in the years after 1992 had eroded the value of the savings deposits, prompting parliament in 1997 to decide to compensate all individual depositors for inflation. The government began registering claims and paying compensation in 1998, starting with the oldest and poorest depositors. Limited budgetary resources constrained the pace of compensation, which was to be completed by end-2003. So far, some 230 million have been paid from the budget.

In 1998, the Kyrgyz banking sector was hit by the Russian crisis. In response to mounting problems in banks, the NBKR took steps to shore up the sector, including by revoking the licenses of several banks. The deposits of the three largest failed banks were transferred to a new bank—Kairat—which was recapitalized with government bonds, while their nonperforming assets were moved to Debra, a newly established government loan collection agency. The deposits of three smaller banks that were closed in 1999-2002 were to be compensated through sales of their assets, but this has not materialized.

Political pressure to complete these compensations rose this year as depositors of the failed banks took to the streets in protest. The government proposed a package to bail out the former Savings Bank depositors, as required by parliament. While the total compensation is difficult to estimate, as it depends on the outcome of the registration process, the staff believes that it would fall in the range of some 500 million to 1 billion, or about ½ to 1 percent of GDP, with an annual interest cost of some 10 to 20 million (the upper range of these estimates assumes 170,000 depositors with an average deposit of some 5900, or \$125). These estimates include compensation (up to some 10,000, about \$210) for individual depositors of the three commercial banks, accounting for about some 40 million.

Under the proposed compensation package, depositors may submit claims until end-2003. After that, the government will issue to depositors 7-year marketable bonds carrying an interest rate of 2 percent. Making the bonds negotiable provides an opportunity for those depositors who prefer cash to sell them in the market. Given the limited low-risk investment opportunities, commercial banks should have an incentive to buy such government securities at discount.

22. The authorities committed to reduce the large quasi-fiscal deficit (QFD) of the electricity sector (Box 3). Discussions between Fund staff, the authorities, and World Bank experts suggest the QFD—which reached 13 percent of GDP in 2002—could be broadly

Box 3. The Electricity Sector Quasi-Fiscal Deficit

The Kyrgyz electricity sector performs quasi-fiscal functions for households, budget institutions, agriculture, and (state-owned) enterprises. Electricity is provided at tariffs well below cost recovery, cash collections are low, and losses—largely due to theft—are high. As a result, large quasi-fiscal deficits have emerged, financed through inter-enterprise arrears, budgetary off-sets, subsidies, reduced maintenance, and depletion of the capital stock.

The QFD (defined as the difference between cost of production and end-users' cash payments) is higher in the Kyrgyz Republic than in countries such as Armenia and Georgia, where energy reforms are more advanced. In 2002, losses reached nearly 40 percent of domestic supply, while tariffs were less than one-third of estimated marginal costs. Cash collections covered only one third of billing.

Electricity Quasi-Fiscal Deficit for Selected CIS Countries in 2002 1/					
	QFD (% of GDP)	Tariff (UScts/kWh)	Cost Recovery (UScts/kWh)	Cash Collection (% of Bill)	Excess Losses (% of Prod.) 2/
Armenia	0.6	3.7	3.4	90	10
Georgia	5.7	4.2	4.1	28	5
Kyrgyz	12.9	1.2	2.3	33	39
Moldova	1.2	5.0	5.0	76	19
Tajikistan	21.4	0.4	2.1	86	5
Ukraine	2.9	3.1	3.3	87	13
Uzbekistan	14.5	1.0	3.2	50	18

Source: Fund staff estimates.

1/ Comparisons across the countries warrant caution because of the uneven quality of data and difficulties in estimating the cost recovery levels.

2/ Excess (i.e., above normative) technical and commercial losses.

halved by 2006, with strong policies addressing tariffs, losses, and bill collection. The authorities will determine specific measures in these areas in consultation with the World Bank, which supports energy sector reform with its Consolidated Structural Adjustment Credit (CSAC). Under the PRGF-supported program, the authorities committed to an indicative 2003 QFD target of 11.7 percent of GDP; they are establishing a monitoring framework and will submit to staff a report covering QFD developments through end-June 2003 by end-September (a structural benchmark). A social compensation package to protect poor consumers from higher electricity rates will be prepared for discussions with the staff later this year.

IV. PROGRAM MONITORING

23. **Quantitative performance criteria for end-September 2003 and benchmarks for end-June 2003 are specified in the attached Supplementary Memorandum of Economic Policies (SMEP), Table 1.** Structural benchmarks for end-September 2003 are listed in Table 2 of the SMEP. The fourth program review is scheduled for January 2004.

V. STAFF APPRAISAL

24. **The staff welcomes the highly satisfactory macroeconomic performance under the current PRGF-supported program.** Prudent fiscal and monetary policies have contributed to price stability and helped sustain an underlying growth rate of about 5 percent a year. Structural reforms are also moving ahead.

25. **Maintaining fiscal discipline is a noteworthy achievement.** Tax collection has improved, thanks to stronger administrative efforts, and the authorities have contained expenditure growth. Extending the VAT to large agricultural producers and introducing a new property tax were bold measures that required overcoming strong vested interests. Looking forward, however, additional fiscal adjustment is needed to preserve macroeconomic stability and to attain debt sustainability. Further reforms of tax administration, including of the large-taxpayer unit, as well as the strengthening of the Ministry of Finance, should help.

26. **The NBKR has maintained low inflation while accommodating the remonetization of the economy.** The more active use of treasury bills, rather than foreign exchange interventions, to manage liquidity is a welcome development. A deeper domestic securities market now allows the NBKR to react promptly to signs of accelerating inflation by using open market operations to tighten bank liquidity.

27. **The exchange rate policy of managed floating has been appropriate.** The recent nominal appreciation against the U.S. dollar is not a cause for concern, as Kyrgyz cost competitiveness remains satisfactory.

28. **The external debt strategy is on track.** The authorities' adherence to further fiscal adjustment, cautious foreign borrowing, and the potential Paris Club concessional debt stock relief could lead to external debt sustainability in the second half of the decade. Strong program compliance is critical, and would both enhance prospects for debt relief and ensure improvements in macroeconomic performance and the business climate.

29. **The authorities' commitment to reduce the quasi-fiscal deficit of the electricity sector is a welcome recognition of the macroeconomic significance of the sector's imbalances—an issue that is both politically and technically complex.** The authorities' policies will need to consider the impact of higher costs to the population, and the staff supports the government's plans to include compensatory measures for poor consumers when moving ahead with the energy sector reform.

30. **The staff notes the authorities' approach to tackling the difficult issue of depositor compensation.** Concerns about moral hazard remain, however, and this depositor bailout should not be a precedent in case of future bank failures. To avoid such failures, the NBKR's bank supervision efforts should receive strong support from the highest levels of the government, to quickly rehabilitate emerging problem banks or, if necessary, to close them.

31. **While regretting the recent reversals in trade liberalization, the staff welcomes the authorities' reaffirmation of their commitment to a liberal trade regime.** The credibility of the country's liberal trade policy should not be undermined by re-introducing measures that distort trade and are costly to Kyrgyz consumers.

32. **The structural reform agenda remains large and is becoming increasingly important to sustaining growth and poverty reduction.** Rapid progress in improving governance and reducing corruption is crucial to improving the public's perception of the legitimacy of government. The role of the National Integrity Council will be critical in this endeavor. The reform of the banking sector remains the key to fostering savings and promoting financial intermediation, which are necessary for developing small and medium enterprises and for economic diversification.

33. The authorities have successfully implemented the policies included in the program. The delay in implementing two performance criteria was brief and has not jeopardized the program's objectives. The staff therefore supports the authorities' request for the waivers of nonobservance and recommends the completion of the third review under the PRGF.

Table 1. Kyrgyz Republic: Quantitative Program Targets 1/
(in millions of soms, unless otherwise indicated; eop)

	2001			2002									2003			
	December	March		June		September			December			March				
	Actual	Performance Criteria		Benchmarks		Performance Criteria			Benchmarks			Performance Criteria				
		Program	Adjusted	Actual	Program	Adjusted	Actual	Program	Adjusted	Actual	Program	Adjusted	Actual			
Performance criteria																
1. Floor on net international reserves of the NBKR in convertible currencies (eop stock, in millions of U.S. dollars) 2/	39.4	35.0	30.6	53.6	50.3	43.7	58.4	57.6	48.4	79.9	96.1	94.9	105.2	104.2	97.2	109.0
2. Ceiling on net domestic assets of the NBKR (eop stock)	1,257	1,853	1,990	893	2,243	2,566	2,438	1,987	2,436	2,007	1,920	1,976	1,780	1,804	2,131	1,850
3. Ceiling on cumulative fiscal deficit of the state government 3/	1,290 4/	2,364	2,364	2,276	3,721	3,721	3,301	4,948	4,948	4,047	1,348	1,548	1,339	2,713	2,713	2,390
4. Cumulative floor on state government tax collections in cash 3/	2,929	4,942	4,942	5,008	7,440	7,440	7,508	10,316	10,316	10,359	3,025	3,025	3,085	5,303	5,303	5,343
5. Ceiling on the stock of central government budget arrears	0	0	0	0	30	30	30	0	0	0	0	0	0	0	0	0
6. Ceiling on the stock of Social Fund pension arrears	12	0	0	0	0	0	92	0	0	0	0	0	0	0	0	0
7. Floor on payroll collections in cash of the Social Fund 3/	...	...	...	...	...	...	...	...	...	...	975	975	920	1,715	1,715	1,777
8. Ceiling on the stock of Social Fund arrears to the Medical Insurance Fund	...	...	...	...	...	...	...	...	...	77	50	50	43	40	40	38
9. Ceiling on contracting or guaranteeing by the state government or NBKR of new nonconcessional external debt of less than one year (in millions of U.S. dollars) 5/	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
10. Ceiling on contracting or guaranteeing by the state government or NBKR of new nonconcessional external debt with a maturity of one year or more (cumulative, in millions of U.S. dollars)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11. Ceiling on accumulation of new external payment arrears (in millions of U.S. dollars) 5/	0	0	0	0	0	0	0	0	0	1.14	1.5	1.5	1.14	0	0	0
Indicative targets																
1. Ceiling on reserve money (NBKR liabilities)	5,359	4,853	4,853	5,626	5,602	5,602	6,164	5,700	5,700	6,786	7,432	7,432	7,659	7,677	7,677	7,871
2. Ceiling on the electricity sector quasi-fiscal deficit (in millions of soms)	...	...	...	...	...	...	...	...	...	...	...	...	9,708	...	...	...

1/ Performance criteria, benchmarks, and indicative targets are defined in the Supplementary Technical Memorandum of Understanding.

2/ Until September 2002, foreign exchange components valued at the exchange rate US\$1 = som 49, gold holdings valued at US\$265 per ounce, SDR valued at SDR 1 = US\$1.259. Starting December 2002, foreign exchange components valued at the exchange rate US\$1 = som 47, gold holdings valued at US\$322.4 per ounce, SDR valued at SDR 1 = US\$1.3186. Targets exclude net claims to BRO countries.

3/ For March 2003, cumulative begins on October 1, 2002. For December 2003, cumulative begins on October 1, 2003.

4/ The deficit for the fourth quarter of 2001 is adjusted for interest payments rescheduled by the Paris Club (som 172 million).

5/ On a continuous basis.

Adjusters

1. The floor on net international reserves of the NBKR will be adjusted: (i) upward/downward by 100 percent of excess/shortfall in net foreign financing of the state government budget and cash grants; and (ii) upward/downward by 100 percent of excess/shortfall in cash privatization receipts. The adjustment for shortfalls in adjusters (i) and (ii) is to be limited to US\$ 15 million each, valued at the program exchange rate. In the case of a release of the NBKR's pledged foreign reserves, the NIR floor will be adjusted upward by 100 percent of any excess/shortfall in the net effect of the releases and related amortization payments.

2. The ceiling on net domestic assets of the NBKR will be adjusted: (i) downward/upward by 100 percent of excess/shortfall in net foreign financing of the state government budget and cash grants; and (ii) downward/upward by 100 percent of excess/shortfall of cash privatization receipts. The adjustment for shortfalls in adjusters (i) and (ii) is to be limited to US\$ 15 million each, valued at the program exchange rate, excluding the amortization payments for the release of the NBKR's pledged foreign reserves.

Table 2. Structural Performance Criteria and Benchmarks through end-March 2003

	Structural performance criteria (end-March 2003)	Assessment on implementation
1.	Adoption by the upper house of parliament and enactment of the VAT extension on the direct sales of large agricultural producers.	Not observed Adopted by parliament by end-March, but signed by President on April 14.
2.	Adoption by parliament and enactment of a new tax law on real property.	Not observed Upper House approved with a one-week delay; signed by President on April 30.
3.	Approval by the Economic Policy Council and publishing of the 2004-2006 Medium-Term Budget Framework designed to achieve real GDP growth of 5 percent and inflation of not more than 4 percent a year.	Observed
	Structural benchmarks (end-January 2003)	
1.	Submit to parliament draft Anti-Money Laundering and Combating Financing Terrorism (AML/CFT) legislation.	Observed
2.	Publish the list of the 50 largest tax payers.	Observed
3.	Eliminate the specialized bank status.	Observed
	Structural benchmarks (end-March 2003)	
1.	Reduce arrears on VAT refunds as specified in paragraph 16 of the SMEP.	Observed
2.	Issue implementation regulations for extra-judicial arbitration of commercial disputes.	Observed
3.	Develop a commitment control and arrears tracking system on a manual basis.	Observed
4.	Issue a privatization tender for KAIRAT bank.	Delayed

Table 3. Kyrgyz Republic: Selected Economic Indicators, 1999-2006

	1999	2000	2001	2002		2003		2004	2005	2006
	Actual	Actual	Actual	Prog. 1/	Act.	Prog. 1/	Rev. Proj.	Curr. Proj.	Curr. Proj.	Curr. Proj.
GDP										
Nominal GDP (in billions of soms)	48.7	65.4	73.9	77.5	75.2	85.3	82.2	89.5	97.6	106.4
Nominal GDP (in millions of U.S. dollars)	1,243	1,368	1,525	1,649	1,604	1,815	1,749	1,905	2,076	2,264
Real GDP (growth in percent)	3.7	5.4	5.3	0.8	-0.5	5.2	5.2	5.0	5.0	5.0
GDP per capita (in U.S. dollars)	256	278	308	330	321	359	346	377	407	440
Employment (growth in percent)	3.5	0.2	1.1	8.0	3.5	0.2	0.2	0.2	0.2	0.2
Prices and wages										
Consumer prices (percent change, eop)	39.9	9.6	3.7	3.6	2.3	4.4	4.1	3.5	3.5	3.5
Consumer prices (percent change, avg)	35.9	18.7	7.0	2.3	2.1	3.9	3.5	3.5	3.5	3.5
Nominal exchange rate (eop)	45.3	48.9	47.7	47.0	46.4	47.0	...	...	...	...
Exchange rate (soms per U.S. dollar, avg)	39.1	47.8	48.4	47.0	46.9	47.0	...	...	...	...
Average real wage (1994=100)	118.0	120.8	133.6	140.3	151.6	144.3	158.4	165.0	172.0	179.1
Average monthly wage (in U.S. dollars)	24.7	24.7	28.8	31.9	34.4	34.2	37.2	40.1	43.2	46.6
Terms of trade	0.9	-7.0	-0.5	0.1	0.1	0.0	-0.3	0.2	0.3	-0.9
(In percent of GDP)										
General government finances										
Total revenue and grants	21.3	18.5	20.4	21.9	22.8	21.9	22.7	23.3	24.0	24.2
Tax revenue	15.9	15.1	15.8	16.9	17.6	18.0	18.5	18.8	19.3	19.4
Total expenditure (including net lending)	34.0	28.5	25.9	27.2	28.0	26.5	27.4	27.5	27.7	27.2
Non-interest current expenditure	20.9	18.5	19.6	20.0	21.0	19.7	20.5	20.8	20.8	20.7
Public Investment Program (PIP)	9.4	6.8	4.4	5.1	4.7	4.5	4.7	4.0	3.5	3.0
Overall fiscal balance (accrual basis)	-12.6	-9.9	-5.5	-5.3	-5.3	-4.6	-4.7	-4.2	-3.7	-3.0
Overall fiscal balance (cash basis)	-11.9	-9.2	-5.0	-5.6	-5.5	-4.7	-4.9	-4.2	-3.7	-3.0
Primary balance 2/	-9.0	-6.9	-3.3	-3.8	-3.9	-2.6	-3.0	-1.9	-1.0	-0.6
(Percent change, unless stated otherwise)										
Money and credit 3/										
Reserve money (eop)	23.4	12.3	11.3	38.7	42.9	6.5	6.0	...	...	...
Broad money (eop)	33.9	12.1	12.0	29.8	35.1	13.3	14.8	...	...	...
Velocity of broad money 4/	8.5	10.0	9.4	7.6	7.2	7.2	6.6	...	...	...
Velocity of som broad money 4/	...	14.3	12.9	10.0	9.5	9.4	8.7	...	...	...
Money multiplier	1.6	1.6	1.5	1.4	1.4	1.5	1.6	...	...	...
External sector										
Current account balance (in percent of GDP)	-15.7	-6.6	-3.3	-2.8	-2.6	-4.2	-3.4	-4.8	-5.0	-4.9
Export growth (GNFS, in \$, percent change)	-11.8	8.6	-2.1	5.8	13.2	12.9	12.4	2.3	6.6	5.6
Import growth (GNFS, in \$, percent change)	-24.7	-6.5	-13.8	15.5	21.9	11.6	12.7	5.7	6.4	5.0
Gross reserves (months of imports, eop) 5/	3.4	4.4	3.9	4.5	4.3	4.7	4.5	4.6	4.6	4.6
External public debt outstanding in percent of GDP 6/	109.3	111.1	94.4	97.4	101.2	92.2	98.8	87.9	84.0	79.7
Debt service-to-export ratio	21.7	21.7	21.3	18.4	17.4	13.0	12.3	13.4	19.9	16.8

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

1/ EBS/03/13

2/ Overall balance less accrued interest payments.

3/ Projections use program exchange rate.

4/ For 1997-2000, annualized quarterly GDP/end-of-period broad money, for 2001-2003, 12-month GDP/average broad money for last two quarters.

5/ Gross reserves exclude international reserves of NBKR that are pledged or blocked.

6/ Excluding Kuruntar.

Table 4. Kyrgyz Republic: Saving-Investment Balance, 1999-2006

	1999	2000	2001	2002		2003		2004		2005		2006	
	Actual	Actual	Actual	Program	Actual	Program	Proj.	Program	Proj.	Program	Proj.	Program	Proj.
(In percent of GDP)													
Savings and investment balance													
Total Investment	18.0	20.0	18.0	19.4	18.5	20.3	18.9	22.3	20.8	23.0	21.8	23.5	22.6
Government	10.5	8.1	5.3	6.2	6.0	5.3	5.5	4.9	4.9	4.7	4.7	4.5	4.5
PIP (Public Investment Program)	9.4	6.8	4.4	5.1	4.8	4.5	4.7	4.0	4.0	3.5	3.5	3.0	3.0
Capital investment (budget)	1.1	1.4	0.9	1.1	1.2	0.8	0.8	0.9	0.9	1.2	1.2	1.5	1.5
Non-government	7.6	11.9	12.7	13.2	12.5	15.0	13.4	17.4	15.9	18.3	17.1	19.0	18.1
Total domestic savings	2.4	13.4	14.7	16.5	15.9	16.1	15.4	17.6	16.2	18.7	16.8	19.4	17.7
Government	-3.2	-2.1	-1.0	0.1	0.2	0.2	0.2	0.3	0.2	0.5	0.5	1.1	1.1
Non-government	5.6	15.5	15.7	16.4	15.7	15.9	15.2	17.3	15.9	18.2	16.2	18.4	16.6
Foreign savings	15.7	6.6	3.3	2.8	2.7	4.2	3.4	4.7	4.8	4.2	5.0	4.1	4.9

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

Table 5. Kyrgyz Republic: General Government Finances, 2000-06

	2000	2001	2002	2002	2003	2003	2004	2005	2006
	Act.	Act.	Prog.	Act.	Prog.	Rev. Prog.	Rev. Prog.	New Proj.	New Proj.
In million Som									
Total revenue and grants	12,110	15,051	16,953	17,153	18,720	18,652	20,850	23,439	25,762
Total revenue, of which:	11,502	14,429	16,068	16,320	18,283	18,144	20,234	22,499	24,780
Total tax revenue	9,890	11,696	13,100	13,226	15,368	15,217	16,807	18,821	20,658
State taxes	7,676	9,188	10,415	10,475	12,470	12,155	13,618	15,404	16,990
Social Security Revenue 1/	2,214	2,508	2,685	2,751	2,898	3,062	3,189	3,417	3,668
Grants	608	622	886	833	437	508	616	940	982
Total expenditure (including net lending)	18,604	19,150	21,079	21,104	22,608	22,523	24,600	27,030	28,924
Total expenditure (excluding net lending)	18,915	19,659	21,658	21,548	23,068	22,967	25,048	27,518	29,456
Current expenditure, of which:	13,606	15,744	16,886	17,075	18,540	18,439	20,661	22,941	24,623
Wages	2,686	3,550	3,819	4,121	4,312	4,537	5,008	5,556	6,039
Social fund expenditure	1,376	3,928	4,484	4,433	4,877	4,925	5,293	5,662	6,045
Interest due	1,507	1,228	1,419	1,238	1,702	1,559	2,058	2,601	2,586
Capital expenditure (including PIP)	5,309	3,915	4,773	4,472	4,528	4,528	4,387	4,577	4,833
Net lending	-311	-509	-579	-443	-461	-444	-448	-488	-532
Accrual surplus (+) / deficit (-)	-6,494	-4,099	-4,126	-3,952	-3,888	-3,872	-3,750	-3,592	-3,162
Cash surplus (+) / deficit (-)	-6,068	-3,795	-4,336	-4,152	-3,938	-3,978	-3,761	-3,613	-3,197
Total financing	6,068	3,795	4,336	4,152	3,938	3,978	3,761	3,613	3,197
External financing	5,784	4,208	4,234	3,933	4,726	4,541	6,174	1,517	1,083
Domestic financing	114	-712	-33	89	-883	-740	-3,400	-2,580	-2,454
Privatization proceeds	170	289	135	130	94	176	985	390	532
Financing gap	0	0	0	0	1	0	2	4,285	4,037
Memorandum items:									
Primary surplus (+) / deficit (-) (w/o foreign fin. PIP)	-148	672	1,041	627	1,618	1,435	1,873	2,405	2,582
Primary surplus (+) / deficit (-)	-4,560	-2,567	-2,918	-2,914	-2,236	-2,419	-1,703	-1,011	-611
Social Expenditure 3/	7,064	8,424	9,017	10,945	10,144	12,460	14,230	16,245	18,489
Augmented Fiscal Deficit 4/	...	...	-5,417	-5,233	...	...	...	...	...
Bonds issued to the NBKR 5/	...	...	1,081	1,081	...	...	...	...	...
Domestic quasi-fiscal deficit 6/	6,863	10,256	...	9,708	...	9,645	8,919	7,945	6,702
In percentage of GDP									
Total revenue and grants	18.5	20.4	21.9	22.8	21.9	22.7	23.3	24.0	24.2
Total revenue, of which:	17.6	19.5	20.7	21.7	21.4	22.1	22.6	23.1	23.3
Total tax revenue	15.1	15.8	16.9	17.6	18.0	18.5	18.8	19.3	19.4
State taxes	11.7	12.4	13.4	13.9	14.6	14.8	15.2	15.8	16.0
Social Security Revenue 1/	3.4	3.4	3.5	3.7	3.4	3.7	3.6	3.5	3.4
Grants	0.9	0.8	1.1	1.1	0.5	0.6	0.7	1.0	0.9
Total expenditure (including net lending)	28.5	25.9	27.2	28.0	26.5	27.4	27.5	27.7	27.2
Total expenditure (excluding net lending)	28.9	26.6	27.9	28.6	27.0	27.9	28.0	28.2	27.7
Current expenditure, of which:	20.8	21.3	21.8	22.7	21.7	22.4	23.1	23.5	23.1
Wages	4.1	4.8	4.9	5.5	5.1	5.5	5.6	5.7	5.7
Social fund expenditure	5.2	5.3	5.8	5.9	5.7	6.0	5.9	5.8	5.7
Interest due	2.3	1.7	1.8	1.6	2.0	1.9	2.3	2.7	2.4
Capital expenditure (including PIP)	8.1	5.3	6.2	5.9	5.3	5.5	4.9	4.7	4.5
Net lending	-0.5	-0.7	-0.7	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5
Accrual surplus (+) / deficit (-)	-9.9	-5.5	-5.3	-5.3	-4.6	-4.7	-4.2	-3.7	-3.0
Total arrears and rescheduling 2/	0.7	0.4	-0.3	-0.3	-0.1	-0.1	0.0	0.0	0.0
Cash surplus (+) / deficit (-)	-9.3	-5.1	-5.6	-5.5	-4.6	-4.9	-4.2	-3.7	-3.0
Total financing	9.3	5.1	5.6	5.5	4.6	4.8	4.2	3.7	3.0
External financing	8.8	5.7	5.5	5.2	5.5	5.5	6.9	1.6	1.0
Domestic financing	0.2	-1.0	0.0	0.1	-1.0	-0.9	-3.8	-2.6	-2.3
Privatization proceeds	0.3	0.4	0.2	0.2	0.1	0.2	1.1	0.4	0.5
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.4	3.8
Memorandum items:									
Primary surplus (+) / deficit (-) (w/o foreign fin. PIP)	-0.2	0.9	1.3	0.8	1.9	1.7	2.1	2.5	2.4
Primary surplus (+) / deficit (-)	-7.0	-3.5	-3.8	-3.9	-2.6	-2.9	-1.9	-1.0	-0.6
Augmented Fiscal Deficit 4/	...	...	-7.0	-7.0	...	...	...	...	...
Social Expenditure 3/	10.8	11.4	11.6	14.5	11.9	15.2	15.9	16.6	17.4
Bonds issued to the NBKR 5/	...	...	1.4	1.4	...	...	...	...	...
Domestic quasi-fiscal deficit 6/	10.5	13.9	4.1	12.9	...	11.7	10.0	8.1	6.3
Public Consumption	...	9,524	...	10,042	...	10,790	12,082	13,402	14,542
Public Investment	5,309	3,915	4,773	4,472	4,528	4,528	4,387	4,577	4,833

Source: Ministry of Finance and Fund staff projections.

1/ Excluding government contributions.

2/ It includes interest rescheduled for bilateral loans in 2000. From 2001 onwards, debt rescheduling operations are classified within external financing.

3/ Includes the Social Fund. Prior to 2002 and for the 2002 and 2003 program numbers, includes expenditures of the health, education, social security and Pension Fund. Starting 2002, also includes Social Fund contributions of all other government subsectors by functional classification.

4/ Includes the new bond issuance for the guarantee of the Zhibek Zholu loan in the amount of US\$23 million dollars.

5/ Refers to the new bond issuance for the guarantee on the Zhibek Zholu loan.

6/ Electricity sector.

Table 6.1. Kyrgyz Republic: State Government Finances, 2001-06

in million Som	2001	2002	2002	2002	2002	2003							2003	2003	2004	2005	2005	
	Act.	Q4 Prog.	Q4 Act.	Prog.	Act.	Q1 Prog.	Q1 Act.	Q2 Prog.	Q2 Rev. Prog.	Q3 Prog.	Q3 Rev. Prog.	Q4 Prog.	Q4 Rev. Prog.	Prog.	Rev. Prog.	Rev. Prog.	New Proj.	New Proj.
Total revenue and grants	12,344	4,178	4,314	14,268	14,402	2,888	2,953	3,676	3,848	4,360	4,086	4,898	4,689	15,822	15,550	17,561	20,022	22,094
Total revenue	11,922	3,851	4,037	13,383	13,569	2,669	2,887	3,676	3,629	4,142	3,877	4,898	4,689	15,385	15,082	17,045	19,082	21,111
Tax revenue	9,188	3,025	3,085	10,415	10,475	2,278	2,258	2,937	2,937	3,379	3,157	3,876	3,803	12,470	12,155	13,618	15,404	16,990
Income tax	2,008	434	649	1,984	2,189	523	642	494	494	707	561	552	857	2,275	2,254	2,726	2,940	3,272
VAT	4,221	1,444	1,388	4,850	4,794	1,027	863	1,355	1,663	1,485	1,796	1,941	5,841	5,641	6,648	7,432	8,244	
Excises	1,103	314	324	1,073	1,082	236	210	321	321	328	355	465	420	1,350	1,307	1,441	1,583	1,694
Customs	301	84	123	380	419	76	83	108	108	136	140	104	171	425	300	668	755	840
Road and emergency fund tax	990	322	289	1,063	1,030	204	213	304	304	290	360	447	334	1,244	1,230	795	867	831
Other	564	426	312	1,066	951	213	253	355	355	255	256	312	359	1,335	1,223	1,341	1,848	2,109
Other revenue	2,734	826	952	2,968	3,094	392	623	739	692	763	720	1,022	896	2,916	2,927	3,427	3,678	4,122
Nontax revenue	2,677	741	901	2,805	2,964	392	615	739	692	763	720	1,022	886	2,915	2,915	3,337	3,580	4,015
Capital revenue	57	84	51	163	130	0	12	0	0	0	0	0	0	1	2	90	98	106
Grants	622	327	277	886	833	218	71	0	219	218	219	0	0	437	508	616	940	982
Total expenditure (including net lending)	16,371	5,692	5,636	18,341	18,282	4,053	3,946	4,668	4,809	5,051	5,146	6,028	5,604	19,800	19,305	21,421	23,633	25,287
Total expenditure (excluding net lending)	16,880	5,948	5,756	18,920	18,725	4,168	4,025	4,783	4,920	5,166	5,257	6,143	5,747	20,260	19,949	21,869	24,121	25,819
Current expenditure	12,966	4,279	4,325	14,147	14,253	3,211	3,361	3,949	3,960	3,813	3,767	4,759	4,333	15,732	15,421	17,482	19,344	20,986
Wages and social fund contributions	4,301	1,389	1,556	4,725	4,853	1,056	944	1,430	1,397	1,271	1,242	1,564	1,799	3,320	3,382	3,929	6,180	7,176
Transfers and subsidies	2,619	823	1,159	3,061	3,397	832	642	942	918	869	830	988	1,123	3,631	3,513	3,492	3,708	4,044
Interest due	1,228	544	364	1,419	1,258	168	138	775	788	155	176	603	437	1,702	1,559	2,058	2,601	2,586
Purchases of goods and services	4,818	1,574	1,247	4,943	4,726	1,155	1,517	802	857	1,518	1,519	1,604	974	5,079	4,966	5,693	6,344	6,869
Capital expenditure (including FIP)	3,915	1,669	1,431	4,773	4,472	957	663	334	960	1,353	1,490	1,385	1,414	4,328	4,528	4,387	4,578	4,833
Domestically financed capital expenditure	676	274	392	814	932	142	80	124	143	201	260	206	191	674	674	806	1,161	1,640
Foreign financed FIP	3,239	1,394	1,039	3,959	3,541	814	584	210	817	1,152	1,230	1,178	1,223	3,654	3,854	3,581	3,416	3,193
Financial balance	-4,327	-1,770	-1,442	-4,652	-4,324	-1,280	-1,067	-1,107	-1,072	-806	-1,161	-1,245	-1,059	-4,438	-4,359	-4,208	-4,099	-3,725
Net lending	-509	-256	-120	-579	-443	-115	-78	-115	-111	-115	-111	-113	-144	-461	-444	-448	-488	-532
Actual surplus (+) / deficit (-)	-3,828	-1,514	-1,322	-4,073	-3,881	-1,165	-989	-992	-961	-691	-1,050	-1,130	-915	-3,978	-3,915	-3,760	-3,611	-3,193
Total accrues and rescheduling 1/	155	-34	-17	-232	-215	0	-62	0	0	0	0	0	0	0	-62	0	0	0
Cash surplus (+) / deficit (-)	-3,673	-1,548	-1,339	-4,305	-4,096	-1,165	-1,051	-992	-961	-691	-1,050	-1,130	-915	-3,978	-3,978	-3,760	-3,611	-3,193
Total financing	3,673	1,548	1,339	4,305	4,096	1,165	1,051	992	961	691	1,050	1,130	915	3,978	3,978	3,760	3,611	3,193
External financing	4,208	1,839	1,338	4,234	3,933	1,105	501	1,004	1,286	1,307	1,284	1,410	1,471	4,726	4,541	6,174	1,517	1,083
Public investment program (PIP)	3,239	1,374	1,066	3,959	3,630	814	529	710	817	1,152	1,230	1,178	1,278	3,854	3,854	3,416	3,193	
Disbursements (BOP support)	2,067	355	356	353	356	235	0	235	0	0	0	0	0	335	333	1,904	0	0
Total amortization	-1,833	-99	-89	-878	-878	-238	-292	-423	-423	-224	-224	-568	-568	-1,453	-1,507	-1,714	-1,899	-2,110
Debt rescheduling 2/	795	191	215	801	825	294	264	717	656	279	278	800	761	2,091	1,960	2,404	0	0
Escrow account 3/	...	...	...	...	...	...	...	...	...	...	...	...	...	349	349	200	200	231
Domestic financing 4/	-834	-357	-260	-64	33	36	375	-35	-324	-540	-254	-304	-556	-843	-740	-3,481	-2,582	-2,439
NBKR	-949	...	-264	...	-10	...	-10	...	-10	...	-10	...	-10	...	-200	-200	-231	
Redemption of NBKR Treasury Bonds 5/	...	...	...	...	...	...	...	...	...	...	...	...	...	-349	-349	-200	-200	-231
Others	115	...	...	...	...	...	-10	...	-10	...	-10	...	-10	...	...	...	...	...
Privatization proceeds	299	66	61	135	130	24	176	24	0	24	0	24	0	94	176	985	390	532
Financing gap 2/	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	2	4,285	4,037
Memorandum items:																		
Primary surplus (+)/deficit (-) (w/o foreign fin. PIP)	793	390	90	1,072	772	-182	-364	493	644	616	356	652	800	1,378	1,435	1,879	2,406	2,586
Primary surplus (+) / deficit (-) (cash basis)	-2,446	-1,004	-976	-2,886	-2,858	-997	-893	-216	-174	-536	-874	-527	-478	-2,276	-2,419	-1,702	-1,009	-606
Bonds issued to the NBKR 6/	...	1,119	1,119	1,119	1,119	...	...	...	...	...	...	...	...	...	...	...	...	...
Accumulation of financial regularization escrow account	...	...	...	...	...	0	0	0	0	0	0	0	0	0	0	-46	-57	-42
External debt service (accrual basis) 7/	2,797	...	...	1,861	1,861	...	...	...	...	...	...	...	...	2,668	2,593	3,068	3,826	3,999
External debt service (cash basis) 7/	2,003	...	...	1,061	1,036	...	...	...	...	...	...	...	...	578	634	664	826	3,999
Tax revenue collection in cash	9,188	3,025	3,085	10,415	10,475	2,278	2,238	2,937	2,937	3,379	3,157	3,876	3,803	12,470	12,155	13,518	15,404	16,990
Central government tax revenue	7,697	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...

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

1/ It includes interest rescheduled for bilateral loans in 2000. From 2001 onwards, debt rescheduling operations are classified within external financing.

2/ The difference between the financing gap in the BOP and the fiscal tables for 2005-06 reflect potential IMF disbursements.

3/ Part of NBKR profits distribution accumulated in the escrow account for redemption of NBKR Treasury bonds.

4/ Includes the social fund until end-June 2002 (when the general government was introduced).

5/ The amount in 2003 refers to part of the redemption of the Jibek Jolu bonds. The amounts after 2003 forms part of the NBKR's imputed dividend provision to the budget in the context of the regularization of the financial relationship between the MOP and the NBKR.

6/ Refers to the new bond issuances for the guarantee on the Zhubeck Zhoku loan.

7/ Excluding Kamkar, and debt service by the NBKR and by the state-owned enterprises.

Table 5.2. Kyrgyz Republic: State Government Finances (concluded)

In percent of GDP	2001		2002		2002		2002		2003					2003		2004		2005		2006		
	Act.	Q4 Prog.	Q4 Act.	Prog.	Act.	Q1 Prog.	Q1 Act.	Q2 Prog.	Q2 Rev.	Q3 Prog.	Q3 Rev.	Q4 Prog.	Q4 Rev.	Prog.	Rev.	Prog.	Rev.	New Proj.	New Proj.	New Proj.		
Total revenue and grants	17.0	5.4	5.7	18.4	19.1	3.4	3.6	4.3	4.7	5.1	5.0	5.7	5.7	18.5	19.0	19.7	20.5	20.8				
Total revenue	16.1	5.0	5.4	17.3	18.0	3.1	3.5	4.3	4.4	4.9	4.7	5.7	5.7	18.0	18.3	19.0	19.6	19.8				
Tax revenue	12.4	3.9	4.1	13.4	13.9	2.7	2.7	3.4	3.6	4.0	3.8	4.5	4.6	14.6	14.8	15.2	15.8	16.0				
Income tax	2.7	0.6	0.9	2.6	2.9	0.6	0.8	0.6	0.6	0.8	0.7	0.6	0.7	2.7	2.7	3.0	3.0	3.1				
VAT	5.7	1.9	1.8	6.3	5.4	1.2	1.0	1.6	1.6	1.9	1.8	2.1	2.4	6.8	6.9	7.4	7.6	7.7				
Excises	1.5	0.4	0.4	1.4	1.4	0.3	0.3	0.4	0.4	0.4	0.4	0.3	0.5	1.6	1.6	1.6	1.6	1.6				
Customs	0.4	0.1	0.2	0.5	0.6	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.2	0.5	0.6	0.7	0.8	0.8				
Road and emergency fund tax	1.3	0.4	0.4	1.4	1.4	0.2	0.3	0.4	0.4	0.3	0.4	0.5	0.4	1.3	1.5	0.9	0.9	0.8				
Other	0.8	0.6	0.4	1.4	1.3	0.2	0.3	0.4	0.4	0.3	0.3	0.6	0.4	1.6	1.5	1.5	1.5	1.9				
Other revenue	3.7	1.1	1.3	3.8	4.1	0.5	0.8	0.9	0.8	0.9	0.9	1.2	1.1	3.4	3.6	3.4	3.8	3.9				
Grants	0.8	0.4	0.4	1.1	1.1	0.3	0.1	0.0	0.3	0.0	0.3	0.0	0.0	0.5	0.6	0.7	1.0	0.9				
Total expenditure (including net lending)	22.2	7.3	7.5	23.7	24.3	4.8	4.8	5.5	5.8	5.9	6.3	7.1	6.8	23.2	23.7	23.9	24.2	23.8				
Total expenditure (excluding net lending)	22.8	7.7	7.7	24.4	24.9	4.9	4.9	5.6	6.0	6.1	6.4	7.2	7.0	23.8	24.3	24.4	24.7	24.3				
Current expenditure	17.5	5.5	5.7	18.3	18.9	3.8	4.1	4.6	4.8	4.5	4.6	5.6	5.3	18.4	18.8	19.5	20.0	19.7				
Wages and social fund contributions	5.8	1.8	2.1	6.1	6.5	1.2	1.1	1.7	1.7	1.5	1.5	1.8	2.2	6.2	6.5	6.6	6.7	6.7				
Transfers and subsidies	3.5	1.1	1.3	3.9	4.5	1.0	0.8	1.1	1.1	1.0	1.0	1.2	1.4	4.2	4.3	3.9	3.8	3.8				
Interest due	1.7	0.7	0.5	1.8	1.6	0.2	0.2	0.9	1.0	0.2	0.2	0.7	0.5	2.0	1.9	2.3	2.7	2.4				
Purchases of goods and services	6.5	2.0	1.7	6.4	6.3	1.4	2.0	0.9	1.0	1.8	1.8	1.9	1.2	6.0	6.0	6.4	6.5	6.5				
Capital expenditure (including PIP)	5.3	2.2	1.9	6.2	5.9	1.1	0.8	1.0	1.2	1.6	1.8	1.6	1.7	5.3	5.3	4.9	4.7	4.5				
Domestically financed capital expenditure	0.9	0.4	0.5	1.1	1.2	0.2	0.1	0.1	0.2	0.2	0.3	0.2	0.2	0.8	0.8	0.9	1.2	1.5				
Foreign financed PIP	4.4	1.8	1.4	5.1	4.7	1.0	0.7	0.8	1.0	1.3	1.5	1.4	1.5	4.5	4.7	4.0	3.5	3.0				
Financial balance	-5.9	-2.3	-1.9	-6.0	-5.7	-1.5	-1.3	-1.3	-1.3	-0.9	-1.4	-1.5	-1.3	-1.2	-1.5	-4.7	-4.2	-3.7				
Net lending	-0.7	-0.3	-0.2	-0.7	-0.6	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.5	-0.5	-0.5	-0.5	-0.5				
Accrual surplus (+) / deficit (-)	-5.2	-2.0	-1.8	-5.3	-5.2	-1.4	-1.2	-1.2	-1.2	-0.8	-1.3	-1.3	-1.1	-4.7	-4.8	-4.2	-3.7	-3.0				
Total surplus and rescheduling 1/	0.2	0.0	0.0	-0.3	-0.3	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0				
Cash surplus (+) / deficit (-)	-5.0	-2.0	-1.8	-5.6	-5.4	-1.4	-1.3	-1.2	-1.2	-0.8	-1.3	-1.3	-1.1	-4.7	-4.8	-4.2	-3.7	-3.0				
Total financing	5.0	2.0	1.8	5.6	5.4	1.4	1.3	1.2	1.2	0.8	1.3	1.3	1.1	4.7	4.8	4.2	3.7	3.0				
External financing	5.7	2.4	2.0	5.5	5.2	1.3	0.8	1.2	1.6	1.4	1.6	1.7	1.8	5.5	5.5	6.9	1.6	1.0				
Public investment program (PIP)	4.4	1.8	1.4	5.1	4.8	1.0	0.6	0.8	1.0	1.3	1.5	1.4	1.6	4.5	4.7	4.0	3.5	3.0				
Disbursements (BOP support)	2.7	0.5	0.5	0.5	0.3	0.3	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.3	0.3	2.1	0.0	0.0				
Total amortization	-2.5	-0.1	-0.1	-1.1	-1.3	-0.3	-0.4	-0.5	-0.5	-0.3	-0.3	-0.7	-0.7	-1.7	-1.8	-1.9	-1.9	-2.0				
Debt rescheduling 2/	1.1	0.2	0.3	1.0	1.1	0.3	0.3	0.8	0.3	0.3	0.3	0.9	0.9	2.5	2.4	2.7	0.0	0.0				
Escrow account 3/	...	...	...	...	...	...	...	...	...	...	...	...	...	0.4	0.4	0.2	0.2	0.2			
Domestic financing	-1.1	-0.5	-0.3	-0.1	0.0	0.0	0.5	0.0	-0.4	-0.6	-0.3	-0.4	-0.7	-1.0	-0.9	-1.8	-2.6	-2.1				
NBKR	-1.3			
Redemption of NBKR Treasury Bonds 4/	...	...	...	...	...	...	...	...	...	...	...	...	...	-0.4	-0.4	-0.2	-0.2	-0.2			
Others	0.2			
Privatization proceeds	0.4	0.1	0.1	0.2	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	1.1	0.4	0.5				
Financing gap 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.4	3.8				
Memoandum items:																						
Primary surplus (+) / deficit (-) (w/o foreign fin. PIP)	1.1	0.5	0.1	1.4	1.0	-0.2	-0.4	0.6	0.8	0.7	0.4	0.8	1.0	1.9	1.7	2.1	2.5	2.4				
Primary surplus (+) / deficit (-) (cash basis)	-3.3	-1.3	-1.3	-3.7	-3.8	-1.2	-1.1	-0.3	-0.2	-0.6	-1.1	-0.6	-0.6	-2.7	-2.9	-1.9	-1.0	-0.6				
Bonds issued to the NBKR 5/	...	1.4	1.5			
Accumulation of financial regularization escrow account			
External debt service (accrual basis) 6/	3.8	2	2.3			
External debt service (cash basis) 6/	2.7	1	1.4			
VAT/private consumption	8.6	9.4	9.4			
Central government tax revenue	10.4	11.8			

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

1/ It includes interest rescheduled for bilateral loans in 2000. From 2001 onwards, debt rescheduling operations are classified within external financing.

2/ The differences between the financing gap in the BOP and the fiscal tables for 2005-06 reflect potential IMF disbursements.

3/ Part of NBKR profits distribution accumulated in the escrow account for redemptions of NBKR treasury bonds.

4/ The amount in 2001 refers to part of the redemption of the Jibek Jolcu bonds. The amounts after 2003 form part of the NBKR's imposed dividend provision to the budget in the context of the regularization of the financial relationship between the MOF and the NBKR.

5/ Refers to the new bond issuance for the guarantees on the Zhibek Zholtu loan.

6/ Excluding Kamet, and debt service by the NBKR and by the state-owned enterprises.

Table 7. Kyrgyz Republic: Social Fund, 2001-06

	2001		2002		2002		2002		2003						2003		2004		2005		2006
	Act.	Q4 Prog.	Q4 Act.	Prog.	Act.	Q1 Prog.	Q1 Act.	Q2 Prog.	Q2 Rev. Proj.	Q3 Prog.	Q3 Rev. Prog.	Q3 New Proj.	Q4 Prog.	Q4 Rev. Prog.	Prog.	Rev. Prog.	Rev. Prog.	Rev. Prog.	New Proj.	New Proj.	
In million Soms																					
Total revenues	3704	1315	1273	4483	4408	1142	1169	1109	1125	1309	1309	1291	1464	1439	5024	5024	5363	5746	6146		
Total contributions received	3218	1070	1040	3600	3537	816	887	894	910	1033	1033	1015	1160	1091	3903	3903	4107	4441	4788		
Total transfers from state budget	398	229	229	840	840	311	271	200	200	261	261	261	289	329	1061	1061	1193	1241	1290		
Other revenue	88	17	4	43	31	15	11	15	15	15	15	15	15	19	60	60	62	65	67		
Total expenditures	3974	1205	1159	4536	4479	1216	1130	1097	1124	1240	1240	1274	1382	1453	4934	4981	5353	5727	6115		
Pension Fund	3504	1087	1045	4111	4070	1148	1071	1037	1057	1193	1193	1216	1214	1289	4592	4632	4956	5303	5674		
Transfers to other funds	321	169	147	403	394	78	67	80	83	57	57	68	178	174	392	392	408	424	441		
Social Insurance Fund	143	39	34	148	143	17	24	30	30	27	27	28	26	17	99	99	103	107	111		
Employment Fund	97	41	38	99	109	20	16	16	15	21	21	31	41	38	99	99	103	107	111		
Medical Insurance Fund	81	89	75	156	142	40	27	34	38	9	9	9	111	119	194	194	202	210	218		
Accrual surplus(+)/deficit(-)	-271	110	114	-53	-71	-74	39	12	1	70	70	17	82	-14	90	43	10	19	31		
Net accumulation (+)/repayment (-) of arrears	149	-51	-33	22	15	-10	-8	-20	-16	-10	-10	-10	-10	-10	-50	-43	-11	-21	-35		
Cash surplus(+)/deficit(-)	-121	59	81	-31	-56	-84	31	-8	-15	60	60	7	72	-24	40	0	-1	-2	-4		
In percent of GDP																					
Total revenues	5.0	1.7	1.7	5.8	5.9	1.3	1.4	1.3	1.4	1.5	1.5	1.6	1.7	1.8	5.9	6.1	6.0	5.9	5.8		
Total contributions received	4.4	1.4	1.4	4.6	4.7	1.0	1.1	1.0	1.1	1.2	1.2	1.2	1.4	1.3	4.6	4.7	4.6	4.6	4.5		
Total transfers from State budget	0.5	0.3	0.3	1.1	1.1	0.4	0.3	0.2	0.2	0.3	0.3	0.3	0.3	0.4	1.2	1.3	1.3	1.3	1.2		
Other revenue	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1		
Total expenditures	5.4	1.6	1.5	5.9	6.0	1.4	1.4	1.3	1.4	1.5	1.5	1.5	1.6	1.8	5.8	6.1	6.0	5.9	5.7		
Pension Fund	4.7	1.4	1.4	5.3	5.4	1.3	1.3	1.2	1.3	1.4	1.4	1.5	1.4	1.6	5.4	5.6	5.5	5.4	5.3		
Transfers to other funds	0.6	0.2	0.2	0.5	0.5	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.4	0.4	0.4	0.4	0.4		
Net accumulation of arrears	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0		
Accrual surplus(+)/deficit(-)	-0.4	0.1	0.2	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.1	0.1	0.0	0.1	0.0	0.1	0.1	0.0	0.0	0.0		
Net accumulation (+)/repayment (-) of arrears	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0		
Cash surplus(+)/deficit(-)	-0.2	0.1	0.1	0.0	-0.1	-0.1	0.0	0.0	0.0	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0		

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

Table 8. Medium Term Expenditure Framework for General Government (Functional Classification), 2002-06

As percent of GDP		2002 Preliminary	2003 Revised Program	2004	2005 Projection	2006
Total Expenditure of General Government (including net lending)		28.0	27.4	27.5	27.7	27.2
I.	General public services	2.7	2.5	2.4	2.4	2.4
II.	Defense	1.4	1.3	1.3	1.3	1.3
III.	Public order and safety affairs	1.2	0.9	0.9	0.9	0.9
Social Spending		14.5	15.2	15.9	16.6	17.4
IV.	Education	4.1	4.4	4.8	5.2	5.7
V.	Health	1.9	2.0	2.2	2.4	2.5
VI.	Social security and welfare affairs	3.0	3.0	3.3	3.5	3.7
VII.	Pension Fund	5.4	5.7	5.5	5.5	5.4
VIII.	Housing and community services	1.5	1.0	1.0	0.8	0.8
IX.	Recreational, cultural and religious activities	0.4	0.4	0.4	0.3	0.3
X.	Energy complex (electricity production)	0.5	0.3	0.3	0.2	0.1
XI.	Agriculture, water resources, forestry	2.5	2.3	2.3	1.7	1.4
XII.	Mining and mineral resources	0.3	0.1	0.0	0.3	0.0
XIII.	Transportation and communication	2.4	1.9	1.4	1.3	1.1
XIV.	Other economic affairs and services	0.8	0.6	0.4	0.2	0.1
XV.	Other	0.0	0.7	0.9	1.4	1.2
XVI.	Unidentified expenditure	-0.3	0.0	0.0	0.0	0.0

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

Table 9. Kyrgyz Republic: NBKR Accounts, 2001-03
(In millions of soms, end-period stocks) 1/

	2001	2002					2003							
	Dec. Act.	Mar. Act.	Jun. Act.	Sep. Act.	Dec. Prog.	Dec. Act.	Mar. Prog.	Mar. Act.	Jun. Prog.	Jun. Rev. Prog.	Sep. Prog.	Sep. Rev. Prog.	Dec. Prog.	Dec. Rev. Prog.
Net foreign assets	4,947	4,945	3,939	5,018	5,718	6,104	6,079	6,268	6,083	6,460	6,497	6,741	6,766	6,734
Net international reserves (without foreign assets with high risk)	1,930	2,626	2,863	3,915	4,517	4,945	4,895	5,122	4,917	5,330	5,347	5,628	5,633	5,639
Other foreign assets	3,068	2,370	1,128	1,154	1,252	1,210	1,235	1,198	1,218	1,181	1,201	1,164	1,184	1,147
Balance with CIS countries	-51	-51	-51	-51	-51	-51	-51	-51	-51	-51	-51	-51	-51	-51
Long-term foreign liabilities	-2,716	-2,709	-2,721	-2,742	-2,607	-2,643	-2,607	-2,689	-2,583	-2,666	-2,583	-2,666	-2,560	-2,642
Net domestic assets	3,128	3,390	4,945	4,511	4,321	4,198	4,205	4,293	4,284	4,192	3,961	3,982	3,710	4,030
Domestic credit (net)	3,424	3,614	4,836	4,464	4,191	5,611	4,063	5,737	4,094	5,143	3,792	4,932	3,503	4,870
Claims on government (net), o/w:	2,911	3,133	4,429	4,036	3,570	5,116	3,690	5,475	3,662	4,766	3,062	4,525	2,687	3,993
Loan to gov in forex (Turkish loan)	2,135	2,135	2,135	2,135	2,048	2,048	2,048	2,090	2,048	2,090	2,048	2,090	2,048	2,090
Total government deposits	-2,078	-1,861	-1,432	-1,808	-2,187	-2,001	-2,067	-1,663	-2,095	-1,972	-2,695	-2,213	-3,070	-2,745
Government restructuring bonds	1,563	1,563	1,286	1,286	1,286	...	...	...	...	...	...	...	...	...
Treasury bonds 2/	1,290	1,295	2,420	2,423	2,423	4,219	2,423	4,198	2,423	4,298	2,423	4,298	2,423	4,298
T-bills	0	0	0	0	0	850	0	850	0	350	0	350	0	350
Repos	25	-35	-109	-67	100	0	-125	-215	-65	-100	240	-70	325	400
Claims on DMB	488	515	517	494	521	495	498	477	497	477	490	477	491	477
Other items net 3/	-296	-223	109	47	130	-1,413	142	-1,444	190	-951	169	-950	207	-840
Reserve money	5,359	5,626	6,164	6,786	7,432	7,659	7,677	7,871	7,784	7,986	7,874	8,057	7,916	8,122
Money outside of the banks	5,022	5,714	5,615	6,235	...	6,874	...	7,208	...	...	...	...	...	...
Deposits of banks in foreign currency	0	0	0	0	...	0	...	0	...	...	...	...	...	...
Cash of commercial banks	153	140	121	172	...	184	...	226	...	...	...	...	...	...
Reserves of commercial banks	184	272	428	380	...	601	...	437	...	...	...	...	...	...
<i>Memorandum items:</i>														
Reserve money growth (12 month)	11.3	21.9	44.6	35.5	38.7	42.9	36.5	39.9	26.3	29.6	16.0	18.7	6.5	6.0
Gross reserves (in millions of U.S. dollars)	221.8	231.5	230.9	262.8	270.8	279.5	289.1	293.7	279.6	288.2	296.2	302.1	306.7	306.8
in months of imports	4.1	3.8	3.8	4.3	4.5	4.3	4.5	4.3	4.3	4.2	4.6	4.4	4.7	4.5
Net international reserves (in millions of U.S. dollars)	39.4	53.6	58.4	79.9	96.1	105.2	104.2	109.0	104.6	113.4	113.8	119.8	119.9	120.0
change over previous period (in millions of U.S. dollars)	-34.1	14.2	4.9	21.5	15.4	24.6	8.0	3.8	0.5	4.4	9.1	6.3	6.1	0.2
Net domestic assets 4/	631	893	2,438	2,007	1,920	1,780	1,804	1,850	1,883	1,749	1,560	1,539	1,308	1,587

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

1/ Until September 2002, actual and programmed foreign exchange assets and liabilities are valued at the program exchange rate of 49 soms per US dollar, 1.259 U.S. dollar per SDR and a gold price of U.S. dollar 265.5 per Troy ounce. Programmed foreign exchange assets and liabilities are otherwise valued at the exchange rate of 47 soms per U.S. dollar, 1.3186 U.S. dollar per SDR and a gold price of U.S. dollar 322.4 per Troy ounce.

2/ As of December 2002, includes government securities issued to replace restructured bonds, as well as those issued for revaluation losses, lost capital in the Central Asia Development Bank, and capitalized past interest arrears on bonds.

3/ As of December 2002, includes revaluation losses, lost capital in the Central Asia Development Bank, and capitalized past interest arrears on bonds.

4/ Excludes counterpart of the loan by the Eximbank of Turkey and the EBRD/IDA enterprise loan which are channeled through the NBKR.

Table 10. Kyrgyz Republic: Monetary Survey, 2001-03
(In millions of soms, end-period stocks) 1/

	2001		2002				2003							
	Dec. Act.	Mar. Act.	Jun. Act.	Sep. Act.	Dec. Prog.	Dec. Act.	Mar. Prog.	Mar. Act.	Jun. Prog.	Jun. Rev. Prog.	Sep. Prog.	Sep. Rev. Prog.	Dec. Prog.	Dec. Rev. Prog.
Net foreign assets	6,534	6,468	5,313	6,805	7,619	7,794	8,196	8,373	8,158	8,518	8,764	8,977	9,108	9,257
NBKR	4,947	4,945	3,939	5,018	5,718	6,104	6,079	6,268	6,083	6,460	6,497	6,741	6,766	6,734
Commercial Banks	1,587	1,523	1,374	1,787	1,901	1,691	2,117	2,105	2,075	2,058	2,267	2,236	2,343	2,523
Medium-term NBK obligations	-2,716	-2,709	-2,721	-2,742	-2,607	-2,643	-2,607	-2,689	-2,583	-2,666	-2,583	-2,666	-2,560	-2,642
Net domestic assets	4,443	4,980	6,365	5,960	5,596	5,895	5,433	5,870	5,736	5,909	5,462	5,830	5,469	6,068
Credit to government, net	3,325	3,491	4,829	4,456	4,029	5,606	4,149	6,003	4,121	5,294	3,521	5,053	3,146	4,521
Credit from the NBKR	2,911	3,133	4,429	4,036	3,570	5,116	3,690	5,475	3,662	4,766	3,062	4,525	2,687	3,993
Commercial banks	414	358	400	460	458	490	458	528	458	528	458	528	458	528
Government bonds	132	130	126	126	126	126	126	126	126	126	126	126	126	126
Treasury bills actual value	323	400	404	428	428	438	428	447	428	447	428	447	428	447
Other	-41	-172	-130	-94	-95	-74	-95	-45	-95	-45	-95	-45	-95	-45
Credit to rest of the economy	2,831	2,864	2,908	2,924	2,897	3,136	2,602	3,212	2,884	3,467	3,232	3,628	3,575	4,289
of which: extended in foreign currency	1,965	2,004	2,079	2,106	...	2,176	...	2,241	...	0	...	0	...	0
Other items, net	-1,713	-1,374	-1,372	-1,461	-1,329	-2,847	-1,317	-3,245	-1,269	-2,852	-1,290	-2,851	-1,252	-2,741
Broad money	8,260	8,739	8,957	10,023	10,608	11,046	11,022	11,553	11,311	11,760	11,643	12,142	12,017	12,683
Currency outside banks	5,020	5,211	5,615	6,234	...	6,873	...	7,207	...	...	...	...	...	...
Deposits	3,240	3,528	3,342	3,788	...	4,173	...	4,346	...	...	...	...	...	...
of which: foreign currency deposits	2,071	2,244	2,041	2,493	...	2,742	...	2,796	...	...	...	...	...	...
Broad money: som component	6,189	6,495	6,916	7,530	8,047	8,304	8,410	8,758	8,698	8,965	8,952	9,248	9,246	9,689
<i>Memorandum items:</i>														
Velocity (quarterly) 2/	9.3	8.7	8.4	7.9	7.6	7.2	7.3	6.8	7.2	6.7	7.2	6.6	7.2	6.6
Som velocity (quarterly) 2/	12.9	11.7	11.1	10.4	10.0	9.5	9.5	9.0	9.4	8.8	9.4	8.7	9.4	8.7
Broad money growth (12 months)	12.0	22.7	28.1	31.1	29.8	35.1	27.4	33.6	27.5	32.5	17.3	22.4	13.3	14.8
Som broad money growth (12 months)	17.0	25.4	35.3	30.9	30.0	34.2	29.5	34.8	25.8	29.6	18.9	22.8	14.9	16.7
Multiplier	1.5	1.6	1.5	1.5	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.5	1.5	1.6
3-month treasury bill rate	12.4	7.9	9.9	11.7	...	7.0	...	6.0	...	...	...	...	...	...
Financial soundness indicators:														
Equity capital to total assets	52.2	47.2	43.4	42.5	...	36.4	...	...	...	...	...	...	...	...
Non-performing loans (NPLs) to total loans	13.4	14.6	13.8	16.4	...	13.3	...	...	...	...	...	...	...	...
Total provisioning to NPLs	63.5	65.5	69.2	62.9	...	67.0	...	...	...	...	...	...	...	...
Return on assets	1.5	0.2	1.0	0.7	...	1.1	...	...	...	...	...	...	...	...
Liquid assets to total assets	27.0	27.3	27.9	28.5	...	25.3	...	...	...	...	...	...	...	...

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

1/ Until September 2002, actual and programmed foreign exchange assets and liabilities are valued at the program exchange rate of 49 soms per US dollar, 1.259 U.S. dollar per SDR and a gold price of U.S. dollar 265.5 per Troy ounce. Programmed foreign exchange assets and liabilities are otherwise valued at the exchange rate of 47 soms per U.S. dollar, 1.3186 U.S. dollar per SDR and a gold price of U.S. dollar 322.4 per Troy ounce.

2/ 12 month GDP over average quarterly broad money.

Table 11. Kyrgyz Republic: Quarterly Balance of Payments: 2001 - 2003
(in millions of USD)

	2001	2002	2002	2002	2002	2003	2003	2003	2003	2003	2003	2003	2003
	Year	Q4	Q4	Year	Year	Q1	Q1	Q2	Q2	Q3	Q4	Year	Year
	Act.	Prog.	PreL	Prog.	PreL	Prog.	Prog.	Prog.	Prog.	Prog.	Prog.	Prog.	Prog.
Current account balance (excluding official transfers)	-51.0	-9.7	-8.5	-46.7	-42.5	-26.7	-22.5	-5.7	-9.3	-17.0	-11.6	-76.2	-60.3
	-85.2	-24.8	-23.9	-105.8	-99.6	-40.1	-31.2	-20.2	-28.5	-31.7	-27.2	-134.4	-118.6
Trade balance	39.9	-17.2	-19.2	-52.7	-52.2	-18.6	-16.3	-1.9	-12.1	-7.4	-1.6	-29.8	-37.4
Exports, fob 1/	480.3	121.4	142.2	476.6	502.4	121.9	122.6	140.9	141.7	151.5	151.4	542.9	567.2
CIS countries	172.2	47.0	53.8	164.4	171.1	41.4	37.9	49.4	46.1	49.9	46.3	174.7	180.1
Energy	51.5	9.2	4.5	25.4	28.0	9.0	2.6	8.0	4.0	8.0	8.0	29.9	32.6
Other	120.7	37.8	49.3	139.0	143.0	32.4	35.3	41.4	42.1	31.9	38.3	144.8	147.5
Non-CIS	308.0	74.3	88.4	312.2	331.3	80.6	84.7	91.4	95.6	101.6	105.1	368.3	387.1
Gold	224.6	37.6	42.0	156.3	162.7	38.5	45.0	43.5	42.5	55.5	60.4	206.8	203.4
Imports, fob	440.3	138.5	161.4	529.3	554.5	140.5	138.9	142.8	153.8	158.9	153.0	572.7	604.6
CIS countries	250.0	84.7	91.6	307.4	312.2	84.1	78.3	78.8	84.2	86.0	86.4	323.9	334.9
Energy	116.7	43.5	43.2	148.9	145.8	44.8	36.2	34.4	36.6	34.6	44.4	153.1	151.8
Other	133.4	41.2	48.3	158.5	166.4	39.3	42.1	44.4	47.6	51.4	42.0	170.7	183.1
Non-CIS	190.3	53.8	69.8	222.0	242.3	56.4	60.6	63.9	69.6	72.9	66.6	248.8	269.7
Services (net)	-110.1	-6.9	-3.9	-46.2	-43.3	-18.6	-14.8	-17.9	-15.3	-21.1	-19.4	-91.8	-70.5
Non-interest service	-44.5	-0.7	2.3	-7.3	-2.0	-10.0	-9.4	-2.9	-1.1	-7.7	-7.4	-29.6	-25.6
Interest payments (scheduled)	-39.4	-10.1	-10.1	-28.1	-29.2	-4.1	-3.2	-12.6	-11.6	-3.9	-12.1	-33.6	-30.8
o/w moratorium interest	0.0	-0.9	-0.9	-1.7	-1.7	-1.1	0.0	-1.1	-0.8	-0.1	-1.6	-4.4	-2.6
Other net income	-26.2	3.8	3.8	-10.9	-12.1	-4.5	-2.1	-2.4	-2.6	-9.5	0.1	-28.6	-14.0
Transfers (net)	19.1	14.4	14.5	52.2	53.0	10.5	8.6	14.0	18.1	11.5	9.4	45.4	47.6
Official	34.2	15.1	15.4	59.1	57.1	13.4	8.8	14.5	19.1	14.7	15.6	58.2	58.2
Private	-15.1	-0.7	-0.8	-6.9	-4.1	-2.9	-0.1	-0.5	-1.1	-3.2	-6.2	-12.9	-10.7
Capital account balance	-9.5	13.3	21.3	84.0	68.7	25.0	21.8	-8.1	-5.3	17.4	-4.4	52.8	29.4
Commercial banks	-12.5	-4.0	0.0	-6.4	-0.7	-4.6	-8.8	0.9	1.0	-3.8	-6.1	-9.4	-17.8
Medium- and long-term loans, net	-23.5	12.4	10.8	15.3	14.6	11.7	4.4	-15.7	-13.4	20.9	-0.5	12.5	11.4
Disbursement	73.6	36.6	34.9	89.0	89.0	17.3	11.2	15.1	17.4	26.2	27.2	82.0	82.0
CIS	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
Non-CIS	73.6	36.6	34.9	89.0	89.0	17.3	11.2	15.1	17.4	26.2	27.2	82.0	82.0
Of which PIP	67.8	29.7	22.6	82.0	74.8	17.3	11.2	15.1	17.4	26.2	27.2	82.0	82.0
Amortization (scheduled)	-97.1	-24.1	-24.1	-73.7	-74.4	-5.6	-6.8	-30.8	-30.8	-27.7	-27.7	-69.5	-70.6
Of which Kumtor	-49.3	-18.0	-18.0	-36.0	-36.0	0.0	0.0	-18.0	-18.0	0.0	-12.0	-30.0	-30.0
Foreign direct investment	-1.1	4.3	6.4	15.8	16.0	11.0	14.5	2.9	1.5	6.2	7.3	30.7	24.6
Other assets (including acc. pay. & receiv.)	27.6	0.5	4.0	39.4	38.8	6.9	11.6	3.7	5.6	-5.9	-0.1	19.0	11.2
Errors and omissions & short term capital	19.0	0.0	0.0	-18.1	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-41.6	3.6	12.7	19.2	27.9	-1.7	-0.7	-13.9	-14.6	0.4	-16.0	-23.4	-31.0
Financing	41.6	-3.6	-12.7	-19.1	-27.9	1.7	0.7	13.9	14.6	-0.4	16.0	23.3	30.9
NTR	-18.4	-15.4	-24.6	-56.9	-65.6	-8.0	-3.8	-0.5	-4.4	-6.3	-0.2	-23.8	-14.7
Gross official reserves (- increase) 2/	-16.3	-7.9	-17.1	-49.0	-57.7	-18.4	-14.2	9.6	3.5	-13.9	-4.7	-36.0	-27.3
IMF (net)	-2.1	-7.5	-7.5	-8.0	-8.0	10.4	10.4	-10.1	-9.9	7.6	4.5	12.2	12.7
Purchases and disbursements	14.9	0.0	0.0	14.8	14.8	15.5	15.5	0.0	0.0	12.7	12.7	40.8	40.8
Repurchases and repayments	-17.0	-7.5	-7.5	-22.8	-22.8	-5.2	-5.1	-10.1	-9.9	-5.1	-8.1	-28.7	-28.2
Release of pledged reserves 3/	0.0	0.0	0.0	13.2	13.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing (including arrears)	19.1	4.3	4.4	17.1	17.0	4.7	4.5	14.4	14.0	5.9	16.2	42.1	40.5
Accumulation of arrears (net)	-14.7	0.2	0.0	1.5	1.1	-1.3	-1.1	-0.9	0.0	0.0	0.0	-2.3	-1.1
Debt rescheduling	33.8	4.1	4.4	15.6	15.9	6.2	5.6	15.3	14.0	5.9	16.2	44.5	41.7
on arrears	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
on principal	16.2	1.5	1.4	4.4	4.2	4.5	4.5	8.6	8.6	4.2	11.1	28.5	28.5
on interest	17.6	2.1	2.5	10.4	10.8	1.1	1.1	6.0	4.9	1.6	4.1	13.4	11.7
on moratorium interest	0.0	0.4	0.4	0.8	0.8	0.7	0.0	0.7	0.5	0.1	1.0	2.6	1.5
HOP support (ADB)	33.4	7.5	7.5	7.5	7.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HOP support (WB)	7.5	0.0	0.0	0.0	0.0	5.0	0.0	0.0	5.0	0.0	0.0	5.0	5.0
Financing gap (-) (after fiscal measures)	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 Items													
Gross reserves in months of imports	3.9	4.5	4.3	4.5	4.3	4.5	4.3	4.3	4.2	4.4	4.5	4.7	4.5

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

1/ Gold exports to the CIS and energy exports outside the CIS are negligible.

2/ Valued at end-year exchange rates. Gross reserves exclude NBKR pledges to secure government-guaranteed loans and blocked deposits.

3/ Paris Club Savings

Table 12. Kyrgyz Republic: Medium-Term Balance of Payments, 2000-2010
(In millions of U.S. dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	Actual	Actual	Prel.	Rev. Proj.	Rev. Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance 1/	-90.8	-51.0	-42.5	-60.3	-91.0	-104.4	-110.4	-115.9	-132.8	-145.4	-136.3
Trade balance	4.0	39.9	-52.2	-37.4	-68.3	-78.1	-98.2	-105.2	-137.8	-161.6	-162.7
Exports, fob	510.9	480.3	502.4	567.2	571.5	603.9	632.1	676.9	674.8	692.0	730.3
CIS countries	213.7	172.2	171.1	180.1	195.2	228.5	249.1	275.3	304.2	335.7	369.6
of which : Energy	82.0	51.5	28.0	32.6	38.2	58.1	62.2	66.5	71.2	76.2	81.5
Other countries	297.2	308.0	331.3	387.1	376.2	375.4	383.0	401.6	370.6	356.3	360.7
Of which: Gold	195.3	224.6	162.7	203.4	187.3	164.1	149.7	141.9	87.0	51.8	35.2
Imports, fob	506.9	440.3	554.5	604.6	639.8	682.0	730.4	782.1	812.6	853.6	893.1
CIS countries	279.7	250.0	312.2	334.9	358.4	380.2	414.0	448.0	478.4	511.1	546.2
Other countries	227.2	190.3	242.3	269.7	281.4	301.7	316.4	334.1	334.1	342.6	346.9
Services (net)	-170.9	-110.1	-43.3	-70.5	-72.9	-75.4	-50.5	-40.5	-28.8	-19.1	-6.9
Non-interest service	-86.9	-44.5	-2.0	-25.6	-22.5	-16.9	3.2	11.2	20.6	29.7	40.5
Receipts	61.8	80.5	132.4	146.4	158.2	174.1	189.5	208.5	226.3	245.1	266.3
Payments	-148.8	-125.1	-134.4	-172.0	-180.7	-191.0	-186.3	-197.3	-205.7	-215.4	-225.7
Interest payments (scheduled)	-51.3	-39.4	-29.2	-30.8	-39.8	-49.1	-46.1	-44.1	-43.1	-42.5	-42.0
Other net income	-32.6	-26.2	-12.1	-14.0	-10.7	-9.4	-7.6	-7.6	-6.3	-6.3	-5.4
Transfers (net)	76.0	19.1	53.0	47.6	50.2	49.1	38.4	29.9	33.9	35.4	33.4
Official	61.7	34.2	57.1	58.2	59.1	56.4	42.3	29.4	29.4	27.4	22.4
Private	14.4	-15.1	-4.1	-10.7	-8.9	-7.3	-3.9	0.5	4.5	8.0	11.0
Capital account balance	64.3	-9.5	68.7	29.4	30.8	38.1	59.5	88.3	111.0	120.4	145.9
Commercial banks	-1.9	-12.5	-0.7	-17.8	-14.7	-12.2	-8.0	-8.0	-8.0	-8.0	-8.0
Medium- and long-term loans, net	40.6	-23.5	14.6	11.4	1.5	0.4	4.5	19.3	23.0	22.4	37.9
Disbursement -Projects	131.3	73.6	89.0	82.0	82.2	78.7	71.9	82.0	85.9	97.3	103.2
Amortization (scheduled)	-90.7	-97.1	-74.4	-70.6	-80.7	-78.3	-67.4	-67.7	-62.9	-74.9	-65.2
Foreign direct investment	-6.9	-1.1	16.0	24.6	34.0	39.9	52.0	65.0	83.0	92.0	102.0
Other assets (including accounts payable and receivable)	32.5	27.6	38.8	11.2	10.0	10.0	11.0	12.0	13.0	14.0	14.0
Errors and omissions and short term capital	10.3	19.0	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-16.2	-41.6	27.9	-31.0	-60.2	-66.3	-50.8	-27.6	-21.8	-25.0	9.7
Financing	16.2	41.6	-27.9	30.9	60.2	-40.6	-51.5	-38.0	-28.0	-31.0	-49.4
Net international reserves	-13.9	-18.4	-65.6	-14.7	-31.5	-40.6	-51.5	-38.0	-28.0	-31.0	-49.4
Gross official reserves (- increase)	-21.2	-16.3	-57.7	-27.3	-28.0	-12.8	-26.7	-16.6	-8.5	-12.0	-28.4
IMF (net)	7.3	-2.1	-8.0	12.7	-3.5	-27.8	-24.8	-21.4	-19.5	-19.0	-21.0
Purchases and disbursements	18.7	14.9	14.8	40.8	25.4	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases and repayments	-11.4	-17.0	-22.8	-28.2	-28.9	-27.8	-24.8	-21.4	-19.5	-19.0	-21.0
Release of pledged reserves 2/	0.0	0.0	13.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing (including arrears)	30.1	19.1	17.0	40.5	51.2	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of Arrears (net)	0.8	-14.7	1.1	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling	0.0	33.8	15.9	41.7	51.2	0.0	0.0	0.0	0.0	0.0	0.0
on arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
on principal	0.0	16.2	4.2	28.5	31.8	0.0	0.0	0.0	0.0	0.0	0.0
on interest	0.0	17.6	10.8	11.7	14.4	0.0	0.0	0.0	0.0	0.0	0.0
on moratorium interest	0.0	0.0	0.8	1.5	5.0	0.0	0.0	0.0	0.0	0.0	0.0
BOP support loans (ADB)	0.0	33.4	7.5	0.0	25.0	0.0	0.0	0.0	0.0	0.0	0.0
BOP support loans (WB)	0.0	7.5	0.0	5.0	15.5	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap (-)	0.0	0.0	0.0	0.0	0.0	-106.9	-102.3	-65.6	-49.8	-56.0	-39.7
Memorandum items:											
GDP (in millions of U.S. dollars)	1368	1527	1604	1749	1905	2076	2264	2467	2664	2877	3105
Current account balance (in percent of GDP)	-6.6	-3.3	-2.6	-3.4	-4.8	-5.0	-4.9	-4.7	-5.0	-5.1	-4.4
Growth of exports of goods and services (volume)	7.7%	-1.4%	9.4%	9.8%	0.5%	4.4%	4.7%	5.8%	0.2%	2.2%	4.3%
Growth of imports of goods and services (volume)	-14.8%	-13.6%	17.8%	9.5%	3.9%	4.4%	3.2%	4.9%	1.9%	2.9%	2.5%
External Public Debt (US\$ million)	1,778.8	1,629.4	1,739.7	1,793.7	1,712.0	1,758.2	1,810.3	1,851.8	1,886.8	1,924.7	1,965.9
as percent of GDP	130.0	106.7	108.5	102.5	89.9	84.7	79.9	75.1	70.8	66.9	63.3
External Public Debt (NPV Terms)	1,119.2	1,180.7	1,199.7	1,224.4	1,110.1	1,118.9	1,140.1	1,162.2	1,181.2	1,198.4	1,217.0
as percent of GDP	81.8	77.3	74.8	70.0	58.3	53.9	50.3	47.1	44.3	41.7	39.2
External Public Debt/Exports (NPV Terms)	197.7%	213.3%	203.5%	192.4%	160.3%	151.1%	146.8%	140.3%	135.9%	132.0%	128.8%
Gross reserves 3/	205.5	221.8	279.5	306.8	334.8	347.6	374.3	390.9	399.4	411.4	439.8
In months of subsequent year's imports	4.4	3.9	4.3	4.5	4.6	4.6	4.6	4.6	4.5	4.4	4.4
Financing gap as percentage of GDP	0.0	0.0	0.0	0.0	0.0	-5.1	-4.5	-2.7	-1.9	-1.9	-1.3

Sources: Kyrgyz authorities and Fund staff estimates and projections.

1/ Including transfers.

2/ Paris Club Savings

3/ Valued at end-year exchange rates. Gross reserves exclude NBKR pledges to secure government-guaranteed loans and blocked deposits.

Table 13. Kyrgyz Republic: Indicators of Fund Credit, 2001-07
(In percent, unless otherwise indicated)

	2001	2002	2003	2004	2005	2006	2007
Outstanding Fund credit (end-of-period)							
In millions of SDRs	143.3	136.4	145.6	143.0	122.1	103.5	87.4
In millions of U.S. dollars	181.1	176.4	192.7	189.8	162.6	137.9	116.5
In percent of quota	161.3	153.6	164.0	161.0	137.5	116.5	98.4
In percent of GDP	11.9	11.0	11.0	10.0	7.8	6.1	4.7
In percent of total exports	32.3	27.8	27.0	26.0	20.9	16.8	13.2
In percent of external public debt (including Kumtor)	11.1	10.1	10.7	11.0	9.2	7.6	6.3
In percent of external public debt (excluding Kumtor)	12.6	10.8	11.1	11.3	9.3	7.6	6.3
In percent of gross reserves at the beginning of the period	88.1	79.5	69.0	61.9	49.3	40.3	32.3
Debt service due to the Fund							
In millions of SDRs	13.2	19.1	22.4	22.3	21.3	18.9	16.3
In millions of U.S. dollars	16.7	24.6	29.6	29.6	28.3	25.2	21.8
<i>Of which:</i>							
Repurchases and repayments	16.1	24.0	28.7	28.9	27.8	24.8	21.5
Charges/interests	0.5	0.7	0.9	0.7	0.5	0.4	0.3
In percent of quota 1/	14.9	21.5	25.2	25.1	24.0	21.3	18.4
In percent of GDP	1.1	1.5	1.7	1.6	1.4	1.1	0.9
In percent of total exports	3.0	3.9	4.1	4.1	3.6	3.1	2.5
In percent of total debt service (including Kumtor)	10.9	19.5	22.8	17.9	17.6	17.2	17.0
In percent of debt service (excluding Kumtor)	18.0	28.8	30.8	15.8	15.4	16.5	16.2
In percent of gross reserves at the beginning of the period	8.1	11.1	10.6	9.6	8.6	7.4	6.0

Sources: IMF, Treasurer's Department; and Fund staff calculations.

Table 14. Kyrgyz Republic: Prospective Use of Fund Resources, 2003-07
(in millions of SDR, unless otherwise stated)

	Outstanding End-Dec. 2002	2003	2004	2005	2006	2007
		Year				
SBA transactions	0.0					
Purchases		0.00	0.00	0.00	0.00	0.00
Repurchases		0.00	0.00	0.00	0.00	0.00
STF transactions	4.0					
Purchases		0.00	0.00	0.00	0.00	0.00
Repurchases		4.03	0.00	0.00	0.00	0.00
PRGF transactions	132.4					
Disbursements		30.84	19.10	0.00	0.00	0.00
Repayments		17.63	21.74	20.87	18.61	16.12
Total Fund credit outstanding	136.42	145.60	142.96	122.09	103.47	87.36
		(In percent of quota)				
Total Fund credit outstanding 1/		164.0	161.0	137.5	116.5	98.4
Disbursements under PRGF		34.7	21.5	0.0	0.0	0.0

Sources: IMF, Treasurer's Department; and Fund staff calculations.

1/ Relative to the quota of SDR 88.8 million.

Table 15. Kyrgyz Republic: Reviews and Disbursements
Under the Three-Year PRGF Arrangement

Date	Action	Associated Disbursement
December 6, 2001	Approved three year arrangement.	SDR 11.72 million
July 1, 2002	First review completed, based on end-March 2002 performance criteria.	SDR 11.72 million
February, 2003	Second review completed, based on end-September 2002 performance criteria; conditions and disbursements established for the second year of the arrangement.	SDR 11.72 million
On or after May 15, 2003	Complete third review based on end-March 2003 performance criteria.	SDR 9.56 million
June 2003	Indicative targets.	
On or after November 15, 2003	Complete fourth review based on end-September 2003 performance criteria and adopt conditions and disbursements for the third year of the arrangement.	SDR 9.56 million
On or after May 15, 2004	Complete fifth review based on end-March 2004 performance criteria.	SDR 9.55 million
June 2004	Indicative targets.	
On or after November 15, 2004	Complete sixth review based on end-September 2004 performance criteria.	SDR 9.55 million
December 5, 2004	Arrangement expires.	

KYRGYZ REPUBLIC—FUND RELATIONS
(As of April 30, 2003)

I. Membership Status: Joined: 05/08/1992; Article VIII

II. General Resources Account	SDR Million	Percent of Quota
Quota	88.80	100.0
Fund Holdings of Currency	88.80	100.00
Reserve position in Fund	0.00	0.01

III. SDR Department	SDR Million	Percent of Allocation
Holdings	5.05	N/A

IV. Outstanding Purchases and Loans	SDR Million	Percent of Quota
ESAF/PRGF arrangements	138.35	155.80

V. Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	12/06/2001	12/05/2004	73.40	35.16
ESAF/PRGF	06/26/1998	07/25/2001	73.38	44.69
ESAF	07/20/1994	03/31/1998	88.15	88.15

VI. Projected Payments to Fund

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

	Forthcoming				
	2003	2004	2005	2006	2007
Principal	12.04	21.74	20.87	18.61	16.12
Charges/Interest	0.68	0.58	0.47	0.37	0.29
Total	12.72	22.32	21.34	18.98	16.40

VII. Implementation of HIPC Initiative. Not applicable.

VIII. Safeguards Assessments

Under the Fund's safeguards assessment policy, National Bank of the Kyrgyz Republic (NBKR) is subject to an assessment with respect to the PRGF arrangement, which was approved on December 06, 2001 and is scheduled to expire on December 05, 2004. A safeguards assessment of the NBKR was completed on January 18, 2002. The assessment concluded that high risks may exist in the financial reporting framework and in the system of internal controls. Measures to address these risks have been implemented.

IX. Exchange Rate Arrangements

The currency of the Kyrgyz Republic has been the som (100 tyyn =1 som) since May 15, 1993. The Kyrgyz Republic's exchange regime is classified as a managed float. The National Bank of Kyrgyz Republic publishes daily the exchange rate of the som in terms of the U.S. dollar, which is determined in the interbank foreign exchange market.

X. Article IV Consultations

The Kyrgyz Republic is on the 24-month consultation cycle. The last Article IV consultation discussions were held in October 2002 and the Article IV consultation was completed by the Executive Board on February 20, 2003.

XI. FSAP Participation and ROSC Assessment

The FSAP missions were held in May and September 2002, and the discussions were concluded during the 2002 Article IV consultation. A ROSC Fiscal Transparency mission was held in March 2001 and the ROSC Fiscal Transparency Module has been submitted to the Board concurrently with 2001 Article IV consultation report. A ROSC Data mission was held in November 2002.

XII. Resident Representative

The fifth resident representative of the Fund in the Kyrgyz Republic, Mr. Bhaswar Mukhopadhyay, has held his post in Bishkek since March 17, 2001.

Kyrgyz Republic—Relations with the World Bank Group
(As of June 1, 2003)

1. On May 15, 2003, the World Bank Boards of Directors endorsed a Country Assistance Strategy (CAS) FY 03-06 for the World Bank Group based on the Kyrgyz Government's National Poverty Reduction Strategy Paper, which aims at assisting the authorities in capitalizing major reforms to date while maintaining a reform and growth course, which will both reduce poverty and enhance prospects for debt sustainability

2. **International Development Association (IDA).** Between 1992 and 2003, IDA has approved 25 projects totaling approximately \$614 million (after cancellations), of which about \$442.5 million has been disbursed. Six structural adjustment credits have already been completed, which provided quick disbursing support for the Government's economic reform programs in privatization, enterprise restructuring, agricultural policy, financial sector, public sector resource management and pension reform. Five investment operations have also been completed supporting reform and rehabilitation of the telecommunication sector, social safety nets, health, rural finance and livestock development.

3. The active portfolio includes 13 operations:

- A balance of payments support operation (Consolidation Structural Adjustment Credit) assisting with reforms in the power and gas sector and improvements to the business environment (reducing the cost on business from licensing and inspections). The first tranche of the CSAC was disbursed at the end of 2000 and the second at the end of 2001. One additional tranche remains to be disbursed before the closing date of June 2003.
- Two operations supporting energy sector rehabilitation and reform (Power and District Heating and a Technical Assistance Credit supported the CSAC program).
- Six operations supporting provision of key public goods and reform in agriculture (irrigation rehabilitation, flood emergency, on-farm irrigation, rural finance, agricultural support services, and real Estate and Land registration—the latter also provides the basis for the introduction of a tax of non-movable property in rural and urban areas).
- An operation supporting capacity building in the financial sector and a line of credit for private enterprises.
- A second health sector operation continuing support for sectoral restructuring and the authorities' reform program.

- A rural water supply and sanitation operation (approved together with the CAS Progress Report).
- An urban transport operation.

4. The World Bank Group's operational objectives for the next 12 months are to support the ongoing structural reforms in energy, business environment, public expenditure management, health, water and sanitation, and agriculture, and to enhance the portfolio performance. In this endeavor, the IDA is planning to support the authorities' efforts to strengthen the governance framework through a Governance Structural Adjustment Credit (GSAC) and accompanying Governance Technical Adjustment Credit (GTAC)—both were endorsed by the World Bank Boards of Directors on May 15, 2003. The Bank has also recently undertaken a Public Expenditure Review and a Poverty Assessment and both studies are near finalization.

5. IFC has focused on institution building, technical assistance, and strategic investments. Building upon IFC's initial investment in the financial sector, the Demir Kyrgyz International Bank, IFC played an instrumental role in the establishment of the largest bank in the country the Kyrgyz Investment and Credit Bank, with a \$1.4 million equity investment. IFC developed a strategic partnership with FINCA by investing \$1.0 million in a fund to support microenterprises. This investment was accompanied by technical assistance to FINCA to facilitate its transformation and to the government in developing the appropriate regulatory framework. IFC has also provided technical assistance to review and develop the legal and regulatory framework for leasing. Under the Extending IFC's Reach Initiative, IFC has undertaken promotional and business development activities with small and medium-sized enterprises and approved three investments of \$470,000, \$300,000 and \$1.4 million for agribusiness, packaging and pasta production projects, respectively. IFC is playing a catalytic role in the development of SEAF-CAESIF, a regional equity fund that will provide equity, quasi-equity and debt financing as well as technical and managerial assistance to growth-oriented SMEs.

6. The primary focus of IFC activities in the period leading up to the next CAS will be to improve the business environment, provide support for SMEs and closely coordinate with the World Bank to create a framework that will facilitate foreign investment in mining, utilities, and infrastructure. With financial support from the Swiss Government, IFC draws upon the resources of the Private Enterprise Partnership to advise on improving the business environment, provide training and support services for SMEs, continue past IFC efforts to develop leasing activities, and support agri-business for local and export markets. Technical assistance with a focus on project development is currently being undertaken in the tourism sector. IFC will work with IDA on a possible agricultural marketing and processing project, which could provide the basis and framework for collaboration in agricultural leasing. IFC will investigate opportunities for development of the IT sector. IFC will cooperate with IDA

and the government in developing a legal and regulatory framework that will facilitate new foreign investment in mining in future years.

7. MIGA has supported private sector development in the Kyrgyz Republic by extending guarantees to foreign direct investments in four projects in the manufacturing, services, and mining sectors. As of June 30, 2000, the total amount of foreign direct investment facilitated, as a result of MIGA guarantees, is over \$360 million. MIGA has also provided capacity building in foreign investment techniques to the State Committee on Foreign Investments and Economic Development, under an initiative supported by the Swiss government. MIGA plans to continue to assist the development of the Kyrgyz Republic through its guarantee program and capacity building. Data on the Kyrgyz Republic are also featured in MIGA's Privatization Link service, which connects potential investors to information on companies slated for divestiture via the Internet.

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KYRGYZ REPUBLIC—RELATIONS WITH THE ASIAN DEVELOPMENT BANK
(As of April 30, 2003)

1. Asian Development Bank (AsDB) operations in the Kyrgyz Republic commenced in 1994. To date, AsDB has approved 21 loans, all on concessional terms, totaling \$542.2 million, of which about \$345.82 million had been disbursed by April 30, 2003. Lending for fast disbursing, policy based project has accounted for about a third of total lending. Besides loan operations, AsDB has extended technical assistance (TA) grants totaling about \$30.97 million since 1994. The TA operations follow the sharp sectoral focus of the Country Operational Strategy (COS) and complement the AsDB's loan operations. A high proportion of the TA assistance is for supporting the government's efforts for institution strengthening and capacity building, with a view to supporting sustainable economic development.
2. The current COS was endorsed by the AsDB Board in November 1996. The strategy confirmed the principal objectives of the Interim Operational Strategy that had guided AsDB's operations in the Kyrgyz Republic since 1994. These objectives are: (i) support for the government's reform through encouraging institutional changes and strengthening institutional capacity, and improving the provision of public services; (ii) encouraging private sector development; and (iii) improving long-term growth potential through investment in both physical infrastructure and human development and preserving the environment. In achieving these objectives, the COS has deliberately adopted a sharp focus on a small number of strategic areas, including (i) improvement in the provision of public services, particularly social services provided by local governments and the management of reform by the central government; (ii) agriculture, including rural finance; (iii) human development, especially education; and (iv) infrastructure rehabilitation. In 1999, in response to the negative effects of the Russian crisis, the AsDB's reach was broadened to include assistance to the financial sector. This selective approach has enabled the AsDB to maintain a strong sector presence and a well-focused policy dialogue. The COS needs to be revised to reflect AsDB's and the government's latest priorities. A new country strategy and program (CSP) will be completed in 2003 in close consultation with the government and other stakeholders.
3. In 1997 the AsDB initiated support for enhanced subregional economic cooperation among the Central Asian republics and the western-most province of the People's Republic of China. In 1998, the AsDB approved a Private Sector Strategy for Central Asia. The thrust of the strategy is to complement the AsDB's public sector operations with various instruments, including nonguaranteed equity participation and loans to privately sponsored projects.
4. With the adoption in 1999 of poverty reduction as the AsDB's overarching objective, deliberate shifts are being made in the operational program to ensure more explicit support for projects that include beneficiaries living below the poverty line and for projects that will assist others to remain out of poverty.

**KYRGYZ REPUBLIC—RELATIONS WITH THE EUROPEAN BANK FOR
RECONSTRUCTION AND DEVELOPMENT (EBRD)
(As of January, 2003)**

1. According to the last EBRD country strategy, approved in October 2002, the Bank's main priorities in the Kyrgyz Republic are to: promote a healthy micro and small and medium-sized enterprise (SME) sector, facilitate privatisation of the remaining major state enterprises, support the development of the financial sector, help attract investment to key natural resources projects, and to help the government develop and improve transparency, governance and the investment climate through policy dialogue.
2. Since 1994, the EBRD signed 17 investment projects in Kyrgyzstan with a total commitment of €174 million. The private sector accounts for 52 percent of the commitments, with 91 percent provided as debt and 9 percent as equity. The public sector accounts for 48 percent of the commitments, all in the form of debt.
3. Thirteen projects are in the private sector, which two credit lines for micro, small and medium enterprises and a regional Trade Facilitation Program. Total disbursements under the Micro and Small Enterprise Financing Facility amounted at US\$0.8 million as of January 2003. With regards to the Trade Facilitation Program, total turnover to January 2003 reached US\$6 million. Five of the private sector investments have been made under the Direct Investment Facility program, established in 1998 with a total commitment of EUR 2.63 million. The projects were in a variety of sectors, including medical services, production of construction materials, and construction of diplomatic condominium. The objective of this program is to demonstrate the viability of equity investment with local entrepreneurs in difficult markets by providing equity and limited debt financing to private sector businesses.
4. Four projects are in the public sector, with one project aimed at the modernization of the telecommunications network, two projects focusing on upgrading components of the electricity transmission network, and one project in the agribusiness sector. The total commitment of these projects is 43 percent of the total amount.
5. In terms of sectoral allocation, 22 per cent of commitments are in natural resources, 36 per cent in power and energy, 21 per cent in the financial sector and 20 per cent in general and specialized industries.
6. These projects have been supported by the EBRD's technical cooperation program, which is targeted at the financial sector, natural resource management, agribusiness, and critical infrastructure bottlenecks (such as the modernization of telecommunications, and electricity transmission and distribution).
7. The EBRD objective is to avoid putting pressure on Kyrgyzstan's foreign debt burden. Therefore, the EBRD sets special requirements in terms of their expected impact on the country's systemic transition for any investments involving sovereign obligations.

**KYRGYZ REPUBLIC: TECHNICAL ASSISTANCE PROVIDED BY THE FUND,
DEC. 2001–MAY 2003
(As of May 31, 2003)**

<i>Dept.</i>	<i>Subject/Identified Need</i>	<i>Timing</i>	<i>Counterpart</i>
FAD	Tax Policy and Administration	January 28 - February 9, 2002	Ministry of Finance
	Treasury Reform and Expenditure Management	February 11-27, 2002	Ministry of Finance
	Improving the Effectiveness of the Large Taxpayer Unit	February 24 – March 7, 2003	Ministry of Finance
MAE	Payment Systems	March 21 - April 8, 2002	National Bank of the Kyrgyz Republic
	Regularization of Financial Relations between the NBKR and the Ministry of Finance	April 23-May 3, 2002; October 31- November 8, 2002; and February 27 – March 6, 2003	National Bank of the Kyrgyz Republic
	Financial Sector Assessment Program (in cooperation with the World Bank)	May 5-18, 2002; August 26- September 9, 2002; and October 29- November 6, 2002	National Bank of the Kyrgyz Republic
STA	ROSC Data Assessment	Nov. 5-21, 2002	National Statistical Committee

List of Resident Advisors

MAE	Banking Supervision/Restructuring Advisor	Mr. Svartsman	Nov. 2001–Jan. 2004
MAE	Public Debt Policy and Management	Mr. Azarbayejani	Dec. 2002–Dec. 2004
PDR	External Debt Advisor	Mr. Azarbayejani	Feb. 2000–May 2001

KYRGYZ REPUBLIC—STATISTICAL ISSUES

General framework

1. The three institutions responsible for collecting, compiling and disseminating macroeconomic statistics have legal and institutional environments that support statistical quality. However, unlike staff resources, computer and financial resources are not in general commensurate with current needs and pose constraints on future statistical development, specially for the National Statistical Committee (NSC).
2. The NSC maintains a comprehensive and regularly updated data web site largely incorporating Fund dissemination standards metadata structure and format, with good coverage and timeliness (<http://stat-gvc.bishkek.su>). The Kyrgyz Republic participates in the Fund's General Data Dissemination System (GDDS); its dissemination practices exceed GDDS recommendations and meet most SDDS requirements.
3. A data ROSC mission in November 2002 assessed the Kyrgyz Republic's data dissemination practices against the GDDS and undertook an in-depth assessment of the quality of national accounts, and price, government finance, monetary, and balance of payments statistics. The mission concluded that the quality of the Kyrgyz Republic's macroeconomic statistics had improved significantly in the last few years, the authorities had established a good track record of implementing recommendations of past technical assistance missions in the area of statistics and had demonstrated commitment to pursue plans and programs to further improve their statistics.
4. A data ROSC mission in November 2002 assessed the Kyrgyz Republic's data dissemination practices against the GDDS and undertook an in-depth assessment of the quality of national accounts, and price, government finance, monetary, and balance of payments statistics.

National accounts

5. In general, data dissemination of national accounts statistics is prompt. Technical assistance has been received from the IMF, EUROSTAT, OECD, World Bank, and bilateral donors. While significant progress has been made in improving the national accounts estimation process, problems persist with respect to the quality of the source data, due mainly to excessively tight collection deadlines; efforts are needed to improve the quality of the source data for GDP quarterly estimates. Difficulties also remain in properly estimating the degree of underreporting, especially in the private sector. To improve the coverage and reliability of primary data, work has been undertaken to introduce scientific sampling procedures. Improved sampling procedures have been adopted for household surveys and new report forms are being introduced for the enterprise survey. The NSC has established a division of sample surveys, which would assist in improving the sampling techniques. However, subannual national accounts statistics are still collected on a cumulative basis rather than by discrete time periods.

Prices, wages, and employment

6. The scope of the new consumer price index (CPI), which has been published since January 1995, is broadly consistent with international standards. The price index covers all urban resident households of all sizes and income levels, but excludes rural households, which comprise the majority of the population. The recent ROSC mission recommended that the authorities expand the coverage of the CPI to include rural households.

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

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

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

Fiscal accounts

10. The scope of central government statistics falls short of international standards in that it excludes data for the Social Fund and the external-financed Public Investment Program, although these data are published separately. Other limitations are that financial transactions exclude transactions with domestic banks and the discrepancies between the deficit and the financing data. The authorities do not provide any details on the financing data. While revenue and expenditure data generally accord with GFS international standards, there are misclassifications in both categories (for example, some nontax revenues are classified as taxes, and certain expenditure items are misclassified in the budget and treasury accounts).

11. The provision of data on external debt service has improved. Data on actual debt service payments on public and publicly guaranteed payments and outstanding loans, as well as revised projections, are provided on a monthly basis. The quality and timeliness of external debt data are adequate. The External Debt Division of the Ministry of Finance is now solely responsible for monitoring external debt, and this division has benefited from on-site training provided by a Swiss-financed long-term consultant and from the computerization of its database.

Monetary sector

12. The authorities introduced new charts of accounts for the NBKR and the commercial banks during 1997, with the assistance of a resident MAE advisor and USAID. A money and banking statistics mission in March 1999 reviewed the compilation of the monetary data and found that the classification of accounts generally accords with Fund methodology. However, the NBKR's chart of accounts is not sufficiently detailed to support the sectoral breakdown of the monetary statistics and there is a need to improve not only the chart of accounts but also the accompanying instructions.

13. The main findings of the November 2002 ROSC mission were that: (1) the residency criterion is not uniformly applied, as the currency denomination is used to classify some transactions with foreign and domestic units, (2) deposits with banks in liquidation are included in broad money, (3) source data do not provide sufficient information for a more detailed sectoral breakdown (e.g., subsectorization of nonbanks institutions as recommended in the *Monetary and Financial Statistics Manual*), and (4) there are discrepancies among monetary, fiscal and BOP data—consistency checks are not conducted by the monetary statistics and BOP compilers for commercial bank data on foreign assets and liabilities.

14. Monetary data for *IFS* publication are reported on a regular monthly basis with a lag of about one month. Since December 2002, monetary data are reported electronically to STA.

External sector

15. The compilation of balance of payments (BOP) statistics has improved with the assistance of a 1999 technical assistance mission on BOP statistics. The 2002 data ROSC mission noted that the compilation of BOP statistics broadly follows the *Balance of Payments Manual, Fifth Edition (BPM5)*. The NBKR has good arrangements with other agencies to ensure the timely flow of data. However, individual records from several sources (particularly the ITRS data and Customs declarations) are not available to the NBKR, which limits its ability to cross-check the accuracy of data. Although the data collection program has been expanded in the recent past, coverage deficiencies remain with respect to trade, services, and foreign direct investment. The NBKR enterprise surveys lack an up-to-date register and have inadequate coverage of enterprises, particularly those in free economic zones. There is also a need for improving compilation procedures for achieving temporal consistency of data, and investigating and reconciling discrepancies.

16. The NSC conducts a quarterly sample survey for the estimation of shuttle trade, and uses customs records on the number of people crossing the border with CIS countries to derive the sample. However, the high value limits applied for free import of goods by individuals has resulted in the proliferation of a large industry engaging in shuttle trade, complicating estimation.

KYRGYZ REPUBLIC—CORE STATISTICAL INDICATORS
(As of June 25, 2003)

	Exchange Rates	Internat'l Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/Debt Service
Date of Latest Observation	6/20/03	6/20/03	6/20/03	6/20/03	5/31/03	6/20/03	May/03	Q1/03	Apr. 03	May/03	May/03	May/03
Date Received	6/23/03	6/23/03	6/23/03	6/23/03	6/15/03	6/23/03	6/15/03	6/03/03	6/4/03	6/25/03	6/15/03	6/03/03
Frequency of Data	D	D	D	D	M	W	M	Q	M	M	M	M
Frequency of Reporting	D	D	D	D	M	W	M	Q	M	M	M	M
Source of Update	A	A	A	A	A	A	A	A	A	A	A	A
Mode of Reporting	E	E	E	E	E	E	E	E	E	C	E	C
Confidentiality	C	A	A	A	C	C	C	C	C	C	C	C
Frequency of Publication	W	M	M	M	M	W	M	Q	Q	M	M	Y

Explanation of abbreviations:

Frequency of data, reporting and publication: D-daily, W-weekly, M-monthly, Q-quarterly, Y-yearly in conjunction with staff visits.

Source of data: A-direct reporting by National Bank, Ministry of Finance, Ministry of Statistics and Analysis or other official agency.

Mode of reporting: C-cable or facsimile; E-electronic news reporting; F-floppy provided. Most data are provided to the Resident Representative's office and then forwarded to headquarters.

Confidentiality: A for use by the staff only; C-unrestricted use.

SAFEGUARDS ASSESSMENT—SUMMARY OF CONCLUSIONS

Safeguards Assessment

An on-site assessment of the NBKR conducted in August 2001 received full cooperation from the NBKR, which agreed to all measures proposed by the staff.

Vulnerabilities

The vulnerabilities identified included:

- (i) a significant portion of the NBKR's assets were in non-interest bearing government securities with infinite maturity; the actual fair value of these assets being significantly lower than their normal value, the capital base of the bank was overstated, and
- (ii) the central bank law does not preclude distribution of net unrealized gains on foreign exchange or securities.

Remedies Under Program Conditionality

The NBKR and the MoF are implementing since December 2002 an agreement to regularize their financial relations. As part of the agreement, the noninterest-bearing securities with infinite maturity held by the NBKR have been converted into short- and medium-term securities bearing market interest rates, while the NBKR will pay interest on government deposits.

The NBKR has considered, as recommended in the Safeguard Assessment, modifying the national bank law to specifically state that net unrealized gains on market price fluctuations for domestic and foreign securities, as well as on foreign exchange rate revaluations, will not be distributed to the government. It is, however, not necessary to open parliamentary discussions on amendments to the national bank law, as the arrangement can be confirmed through a formal agreement between the NBKR and the MoF. The NBKR continues to make distributions from realized profits only.

Bishkek, Kyrgyz Republic
June 30, 2003

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Köhler:

1. This Supplementary Memorandum of Economic Policies (SMEP) updates our Memorandum of Economic Policies (MEP) dated January 31, 2003, which describes the economic policies supported by the International Monetary Fund with a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF). The SMEP supplements the policies detailed in the MEP for the period April-September 2003. These policies are consistent with our National Poverty Reduction Strategy (NPRS) presented to the IMF and World Bank in December 2002.

I. PERFORMANCE UNDER THE PROGRAM

2. Macroeconomic developments during the first six months of the second annual program (October 1, 2002 – March 31, 2003) were satisfactory. While the economy contracted by ½ percent in 2002, in the first quarter of 2003 growth was 5.2 percent. Industrial production in January-March 2003, excluding Kumtor, grew by 15 percent over the same period a year earlier. Reflecting low inflation expectations and a stable nominal exchange rate, the 12-month inflation rate remained low, at 3.7 percent in April 2003. Despite a reduction in gold and energy exports, the current account deficit was reduced from 3.3 percent of GDP in 2001 to 2.7 percent of GDP in 2002. Nominal interest rates on three-month treasury bills declined from 7 percent at end-2002 to 6 percent at end-March. Over the same period, the nominal exchange rate appreciated by 1½ percent against the U.S. dollar. However, our relatively low inflation, compared to that of our main trading partners, has resulted in a moderate depreciation of the real effective exchange rate.

3. We have met all end-March 2003 quantitative performance criteria under the program. The adjusted floor on net international reserves (NIR) was exceeded by 7 percent of reserve money due to increasing confidence in our local currency and purchases of foreign exchange in the domestic market. Nevertheless, the central bank (NBKR) held its net domestic assets (NDA) below the adjusted ceiling by 4 percent of reserve money, so that the indicative reserve money target was exceeded by only 3 percent. The ceiling on the fiscal deficit was observed, as was the floor on tax collections. As of end-March, there were no central government budget arrears or Social Fund pension arrears, and the stock of Social Fund arrears to the Medical Insurance Fund had been reduced to below 40 million soms, in line with the program. The floor on cash payroll collections into the Social Fund was

exceeded. The zero limits on short-term debt, nonconcessional debt, and external payment arrears were observed. We have incurred no external arrears.

4. The end-March structural performance criterion regarding the publication of the 2004-06 Medium-Term Fiscal Framework (MTFF) was met. Under the MTFF, the fiscal deficit would decline to 3 percent of GDP by 2006; this would be achieved mainly by further expanding the tax base and by continued improvements in tax administration, and without resorting to across-the-board spending cuts that could undermine the priorities of our NPRS. The end-March performance criterion regarding the extension of the VAT to domestic sales of large agricultural producers was met with a delay, as it was signed into law only on April 14, 2003. Similarly, the adoption by parliament and enactment of a new tax law on real property was not observed, as the Upper House did not approve this legislation until April 8 and the law became effective on April 30. As these delays were brief and did not affect program objectives, we are requesting waivers of nonobservance for these performance criteria. The new property tax will improve the financial position of local governments and promote fiscal decentralization. The target date for issuing a privatization tender for KAIRAT bank has been delayed by a few months because the external audit and other aspects of the preparation process required more time; however, the program's six other structural benchmarks scheduled for end-January and end-March 2003 were observed. Regarding our privatization program, in response to requests from bidders we agreed to postpone the deadline for bids for Kyrgyz Telekom until June 15, 2003.

5. To help protect vulnerable groups from the inflationary impact of the VAT extension to large agricultural producers, the 2003 budget grants a 20 percent increase in the Unified Monthly Benefit. The budget also envisages a similar increase in social benefits for the disabled and military pensioners, a differentiated pension increase (with the lowest pensions rising by 15 percent and higher pensions by 5 percent), and an 8 percent increase in the government wage bill.

II. PROGRAM REVISIONS FOR THE PERIOD JUNE 2003-SEPTEMBER 2003

6. We will supplement the MEP in the following areas: (i) revisions to the 2003 macroeconomic framework and program targets, (ii) structural conditionality to strengthen the banking sector, (iii) measures to improve efficiency in public administration, and (iv) the introduction of a framework for monitoring and reducing the electricity sector quasi-fiscal deficit. Quantitative targets and structural benchmarks are contained in the attached Tables 1 and 2.

7. Our main macroeconomic objectives for 2003 have changed only modestly. Real GDP is expected to grow by 5.2 percent, in line with the program, while we now expect inflation (4.1 percent) and the current account deficit (3.4 percent of GDP) to be slightly below the figures in the current program.

8. We believe the state government 2003 fiscal deficit target adopted at the time of the second review remains appropriate. This deficit will be fully financed from external sources,

and we will continue to conduct our domestic debt management exclusively through the NBKR. However, a 330 million som higher deficit in April-September is necessary, mainly to reflect the costs of the recent large landslides in the south of the country and to accommodate the revised disbursement pattern for the Public Investment Program.

9. On the **revenue side**, we have recently taken several steps not foreseen under the program. With a view toward limiting smuggling, we reduced our excise tax rates on oil products and aligned these rates with those of Kazakhstan. To recoup some of the revenue losses stemming from the reduced rates, we have proposed to parliament the elimination of rights for excise-free imports of oil products into three Free Economic Zones (Kara-Kol, Talas, and Naryn), and we will increase the excise tax rate on cigarettes (see below). A seasonal tariff of 20 percent on grain and flour imports was resurrected—counter to the intentions expressed in our January 2003 memorandum—and applied during the period February-March 2003. Approval of this measure, which bypassed the normal process in the Economic Policy Committee (EPC), reflects our frustration with trade restrictions in neighboring countries.

10. We intend to extend the **mandatory patent tax** to three hard-to-tax business categories (cafes, bars, and minivan transportation services). To ensure that the regular tax system is not undermined, we will formulate, by end-September 2003, a strategy for improving the reporting and accounting of small enterprises subject to the patent tax. We will not extend the mandatory patent tax to other business categories. The stock of outstanding **VAT refunds** due to large taxpayers was reduced to below 53 million som at end-March 2003, as targeted under the program. We intend to eliminate the remaining stock of overdue refunds by end-2003. To help ensure attainment of the programmed level of VAT receipts, we will, by end-June 2003, complete the registration process of taxpayers and finalize the guidelines implementing the VAT for large-scale agriculture. We will submit to Parliament by end-June 2003 the necessary implementing regulations that will ensure the public availability of the **property values** used in assessing taxes under the recently-approved property tax. We will prepare a concept paper by end-September 2003 for discussion with Fund staff, with a view toward reducing production and payroll taxes in the medium term, provided that the performance of other taxes (e.g., the property tax, the VAT on agriculture, and the land tax) is sufficient to compensate for the associated revenue losses.

11. The **quasi-fiscal deficit (QFD) in our electricity sector** was equivalent to 12.9 percent of GDP in 2002. The QFD was aggravated by a deteriorating cash collection rate, which fell to one third, and by growing technical and commercial losses. We are working toward reducing the QFD to 6.8 percent of GDP by 2006 and, with this in mind, have introduced electricity sector QFD monitoring into our Fund-supported program. This monitoring is reflected in a new indicative target for end-2003 to limit the electricity sector QFD to 9.6 billion som (11.7 percent of GDP). By end-September 2003, we will develop the semi-annual reporting framework for the electricity sector QFD and present our first report under this new framework to Fund staff, based on end-June data. Because the strategy to reduce the QFD in the medium-term will include measures such as tariff increases, improved payment compliance and strengthened management practices, we will establish a small

working group that will, by end-September 2003, elaborate details, including the design of compensatory measures for low-income consumers.

12. Our **monetary program** remains broadly in line with the stance outlined in our January 2003 MEP. The central bank's end-September 2003 NIR and NDA targets have been changed only a little, mainly to reflect the end-March 2003 outcome. Reserve money is programmed to increase by 6.0 percent during 2003. On exchange rate policy, we will intervene in the market only to smooth exchange rate fluctuations or to strengthen our foreign reserve position.

13. We are taking steps to respond to increasing political pressure from **depositors** who have been promised compensation for savings lost when the former Soviet Savings Bank went bankrupt in January 1996 and those who lost their savings in the 1999 bankruptcies in the aftermath of the Russian financial crisis. We intend to fully compensate the eligible Savings Bank depositors and to compensate other individual depositors only up to a maximum of 10,000 soms. We will effect this compensation by issuing tradable seven-year government bonds paying annual interest of 2 percent, and expect to issue these bonds in early 2004. The deadline for depositor registration will be set at end-December 2003. On the deposit insurance mechanism, we will set up a working group that will clarify the necessary prerequisites, including the required funding of the system, for its introduction in the medium-term.

14. On **external sector policies**, we reaffirm our commitment to liberal, non-discriminatory trade policies. We will modify the cigarette excise tax to eliminate the current differential excise rates between domestically-produced and imported products by implementing, by end-September 2003, a non-discriminatory ad valorem excise tax. The seasonal tariffs on wheat and flour expired at end-March; we will not re-introduce such tariffs without first consulting with the IMF staff and, in any event, only if consistent with our WTO obligations.

15. In the **governance** area, we intend by end-September 2003 to complete the functional reviews of the Ministry of Labor and Social Protection, the Ministry of Justice, the Ministry of Transport and Communications, and the State Property Fund. As part of the ongoing reorganization of the Ministry of Finance, we will revise its charter and terms of reference for civil servants by end-June 2003 and, in addition to the recently established post of Permanent Secretary of the Ministry of Finance, establish three Permanent Undersecretary positions, thus creating a clearer distinction between political and career posts. We are also drafting a new Law on the Civil Service, which will ensure the separation of political responsibility from the professional accountability of the civil service. The new Law will also include income and asset declaration requirements for high-level civil servants. The new Law on Government, currently being drafted, will establish a transparent mechanism for government decision making on financial issues. We have recently introduced a National Integrity Council to coordinate governance reform and reduce corruption, and will ensure that civil society is sufficiently represented in this Council.

16. We are preparing legislative amendments to eliminate the 15 percent ceiling that now applies to legal entities in their ownership of commercial banks, and will submit these amendments to parliament by end-September 2003. We also intend, by end-September 2003, to submit to Parliament revisions to the Law on Audits to give the NBKR a greater role in supervising bank audits in order to: (i) empower the NBKR to reject, require replacement of and, if necessary, to appoint external auditors, (ii) to require auditors, upon NBKR request, to disclose and discuss their findings, and (iii) to define the qualification requirements for external bank auditors. A privatization tender for KAIRAT bank, which had been delayed, will be issued by end-September 2003. Following the transfer to the Government of the Settlement Savings Corporation (SSC) on March 31, 2003, we are preparing an SSC Development Strategy and will submit it to Fund and World Bank staff by end-September 2003. By end-September 2003, we also intend to implement an electronic payments clearance system and to gain approval of the NBKR Board for concept papers on the bulk clearing system and on the system of real time gross settlements. The government will work with the parliament to ensure that the AML/CFT law it adopts is consistent with international best practice.

III. PROGRAM MONITORING

17. To monitor policy implementation under the second-year program through end-September 2003, quantitative and structural performance criteria and benchmarks are set out in Tables 1 and 2 of this SMEP and the revised Technical Memorandum of Understanding.

18. The government of the Kyrgyz Republic and the NBKR believe that the policies and measures set forth in this SMEP are adequate to achieve the objectives of the program. However, in consultation with the Fund staff we will take any further measures that may be needed to ensure the success of the program. These consultations can be initiated by the government, the NBKR, or the Managing Director.

Yours sincerely,

//s//
Nikolai Tanaev
Prime Minister
Kyrgyz Republic

//s//
Ulan Sarbanov
Chairman
National Bank of the Kyrgyz Republic

Table 1. Kyrgyz Republic: Quantitative Program Targets 1/
(in millions of soms, unless otherwise indicated; eop)

	2002						2003					
	December			March			June		September		December	
	Benchmarks			Performance Criteria			Benchmarks		Benchmarks	Performance Criteria	Indicative Targets	
	Program	Adjusted	Actual	Program	Adjusted	Actual	Program	Revised Program	Program	Revised Program	Program	Revised Program
I. Performance criteria												
1. Floor on net international reserves of the NBKR in convertible currencies (eop stock, in millions of U.S. dollars) 2/	96.1	94.9	105.2	104.2	97.2	109.0	104.6	113.4	113.8	119.8	119.9	120.0
2. Ceiling on net domestic assets of the NBKR (eop stock)	1,920	1,976	1,780	1,804	2,131	1,850	1,883	1,749	1,560	1,539	1,308	1,587
3. Ceiling on cumulative fiscal deficit of the state government 3/	1,548	n.a.	1,339	2,713	n.a.	2,390	3,705	3,351	4,396	4,401	1,130	915
4. Cumulative floor on state government tax collections in cash 3/	3,025	n.a.	3,085	5,303	n.a.	5,343	8,240	8,280	11,619	11,437	3,876	3,803
5. Ceiling on the stock of central government budget arrears	0	n.a.	0	0	n.a.	0	0	0	0	0	0	0
6. Ceiling on the stock of Social Fund pension arrears	0	n.a.	0	0	n.a.	0	0	0	0	0	0	0
7. Floor on payroll collections in cash of the Social Fund 3/	975	n.a.	920	1,715	n.a.	1,777	2,515	2,515	3,389	3,389	1,102	1,091
8. Ceiling on the stock of Social Fund arrears to the Medical Insurance Fund	50	n.a.	43	40	n.a.	38	20	20	10	10	0	0
9. Ceiling on contracting or guaranteeing by the state government or NBKR of new nonconcessional external debt of less than one year (in millions of U.S. dollars) 4/	0	n.a.	0	0	n.a.	0	0	0	0	0	0	0
10. Ceiling on contracting or guaranteeing by the state government or NBKR of new nonconcessional external debt with a maturity of one year or more (cumulative, in millions of U.S. dollars)	0	n.a.	0	0	n.a.	0	0	0	0	0	0	0
11. Ceiling on accumulation of new external payment arrears (in millions of U.S. dollars) 4/	105.0	n.a.	1.14	0	n.a.	0	0	0	0	0	0	0
II. Indicative targets												
1. Ceiling on reserve money (NBKR liabilities)	7,432	n.a.	7,659	7,677	n.a.	7,871	7,784	7,986	7,874	8,057	7,916	8,122
2. Ceiling on the electricity sector quasi-fiscal deficit (in millions of som)	...	...	9,708	...	...	...	...	...	...	...	...	9,645

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

1/ Performance criteria, benchmarks, and indicative targets are defined in the Supplementary Technical Memorandum of Understanding.

2/ Until September 2002, foreign exchange components valued at the exchange rate US\$1 = som 49, gold holdings valued at US\$265 per ounce, SDR valued at SDR 1 = US\$1.259. Starting December 2002, foreign exchange components valued at the exchange rate US\$1 = som 47, gold holdings valued at US\$322.4 per ounce, SDR valued at SDR 1 = US\$1.3186. Targets exclude net claims to BRO countries.

3/ For March 2003, cumulative begins on October 1, 2002. For December 2003, cumulative begins on October 1, 2003.

4/ On a continuous basis.

Adjustors

1. The floor on net international reserves of the NBKR will be adjusted: (i) upward/downward by 100 percent of excess/shortfall in net foreign financing of the state government budget and cash grants; and (ii) upward/downward by 100 percent of excess/shortfall in cash privatization receipts. The adjustment for shortfalls in adjustors (i) and (ii) is to be limited to US\$ 15 million each, valued at the program exchange rate. In the case of a release of the NBKR's pledged foreign reserves, the NIR floor will be adjusted upward/downward by 100 percent of any excess/shortfall in the net effect of the releases and related amortization payments.

2. The ceiling on net domestic assets of the NBKR will be adjusted: (i) downward/upward by 100 percent of excess/shortfall in net foreign financing of the state government budget and cash grants; and (ii) downward/upward by 100 percent of excess/shortfall of cash privatization receipts. The adjustment for shortfalls in adjustors (i) and (ii) is to be limited to US\$ 15 million each, valued at the program exchange rate, excluding the amortization payments for the release of the NBKR's pledged foreign reserves.

Table 2. Structural Benchmarks through end-September 2003

By end-September 2003

- Modify the cigarette excise tax to eliminate the current differential excise rates between domestically-produced and imported products by implementing a non-discriminatory ad valorem excise tax.
- Submit to Parliament amendments to the Law on Audits, as described in paragraph 16 of the SMEP.
- Issue a privatization tender for KAIRAT Bank, as described in paragraph 16 of the SMEP.
- Develop a semi-annual reporting framework for the electricity sector quasi-fiscal deficit, as specified in Table 12 of the Supplementary Technical Memorandum of Understanding, and present to Fund staff the first report, based on end-June 2003 data.

SUPPLEMENTARY TECHNICAL MEMORANDUM OF UNDERSTANDING

1. The Kyrgyz Republic's performance during the second half of the second-year of the PRGF-supported program will be assessed by the IMF on the basis of the observance of quantitative and structural performance criteria and benchmarks. This annex and the tables attached to the SMEP define the quantitative performance criteria and indicative targets, the structural benchmarks (Box 1 attached to the SMEP), as well as the monitoring requirements.¹

I. QUANTITATIVE TARGETS

2. Quantitative targets (i.e., quantitative benchmarks for end-June 2003, quantitative performance criteria for end-September 2003, and indicative targets for end-December 2003) are defined below and summarized in Table 1 of the SMEP.

Floor on net international reserves of the NBKR in convertible currency

3. The program contains a floor on the stock of net international reserves of the NBKR in convertible currencies. This floor will be calculated as the difference between total gross international reserves in convertible currencies at the NBKR and total international reserve liabilities of the NBKR in convertible currencies.

4. Total gross international reserves of the NBKR shall be defined as the NBKR holdings of monetary gold, holdings of SDRs, any reserve position in the IMF, and any holdings of convertible currencies in cash, debt instruments (including accrued interest) or with foreign banks. Amounts pledged as collateral or in swaps or otherwise blocked, capital subscriptions in foreign financial institutions, and non-liquid assets of the NBKR are excluded. Excluded are net forward positions, defined as the difference between the face value of foreign currency denominated NBKR off-balance sheet claims on non-residents and foreign currency obligations to both residents and non-residents. In addition, net claims on other BRO countries are excluded from the ceiling. For program monitoring purposes, gross international reserves shall be valued at a fixed program exchange rate of som 47 per U.S. dollar and \$1.3186 per SDR. Official gold holdings shall be valued at \$322.4 per troy ounce. Program cross exchange rates are listed in Table 13.

5. Total international reserve liabilities of the NBKR in convertible currencies shall be defined as outstanding liabilities to the IMF and other convertible currency liabilities of the NBKR to non-residents with an original maturity of up to and including one year. For program monitoring purposes, total international reserve liabilities shall be valued at the

¹ Central government and Republican government are synonymous in this memorandum. State government comprises central and local governments. General government comprises state government and Social Fund finances.

program exchange rates. Thus calculated, the stock of net international reserves in convertible currencies amounted to \$109.0 million as of March 31, 2003.

6. The program floors on the NIR of the NBKR in convertible currencies are reported in Table 1 below.

Table 1. Floors on NIR of the NBKR in Convertible Currencies 1/ 2/

	(In millions of U.S. dollars)
March 31, 2003 (actual)	109.0
June 30, 2003 (benchmark)	113.4
September 30, 2003 (performance criterion)	119.8
December 31, 2003 (indicative target)	120.0

1/ End-of-period stocks.

2/ In the event the base value of March 31, 2003 is revised, the program targets will be revised by the same amount.

7. The floor on net international reserves of the NBKR will be adjusted: (i) upward/downward by 100 percent for any excess/shortfall in net foreign financing of the state government budget and cash grants; and (ii) upward/downward by 100 percent for any excess/shortfall in cash privatization receipts. The adjustment for shortfalls in adjustors (i) and (ii) is to be limited to \$15 million each, valued at the program exchange rate. In the case of a release of the NBKR's pledged foreign reserves, the NIR floor will be adjusted upward/downward by 100 percent for any excess/shortfall in the net effect of the releases and related amortization payments. The programmed net effect is \$ 0.4 million per quarter in the second, third, and fourth quarter of 2003.

8. 'Net foreign financing and cash grants' is defined as balance of payment support loans plus cash grants to the state government budget plus any changes in the balance of unused Public Investment Program (PIP) funds held in the NBKR minus amortization payments by the Ministry of Finance and NBKR (excluding repayments to the Fund). This definition applies to the adjustors to NIR and NDA. The programmed cumulative net foreign financing is as follows. The balance of unused PIP funds was equivalent to \$3.6 million on March 31, 2003.

Table 2. Projected Net Foreign Financing and Cash Grants
Cumulative from April 1, 2003

	(In millions of U.S. dollars)
June 30, 2003	8.7
September 30, 2003	12.8
December 31, 2003	11.4

Ceiling on the net domestic assets of the NBKR

9. Net domestic assets of the NBKR are defined as reserve money of the NBKR (defined below) minus the NBKR's net foreign assets² minus the medium- and long-term NBKR obligations (MLT) minus the counterpart of the loan by the Eximbank of Turkey minus the counterpart of the EBRD and IDA enterprise loans (see equation 1 below).

$$(1) \quad NDA = RM - NFA - MLT - \text{Turkish Loan} - \text{EBRD} - \text{IDA Enterprise Loan}$$

10. Thus defined, the NBKR's net domestic assets consist of: (a) gross credit to the general government from the NBKR minus deposits of the general government with the NBKR minus the counterpart of the loan by the Eximbank of Turkey; (b) gross credit to domestic banks by the NBKR minus the counterpart of the EBRD and IDA enterprise loans; and (c) all other net assets of the NBKR (other items net). Thus defined, the stock of the NBKR's net domestic assets amounted to som 1,850 million on March 31, 2003.

11. The program ceilings on the net domestic assets of the NBKR are reported in Table 3 below.

Table 3. Ceilings on the Net Domestic Assets of the NBKR 1/ 2/

	(In millions of soms)
March 31, 2003 (actual)	1,850
June 30, 2003 (benchmark)	1,749
September 30, 2003 (performance criterion)	1,539
December 31, 2003 (indicative target)	1,587

1/ End-of-period stocks.

2/ In the event the base value of March 31, 2003 is revised, the program targets will be revised by the same amount.

12. The ceiling on net domestic assets of the NBKR will be adjusted: (i) downward/upward by 100 percent of the excess/shortfall in net foreign financing of the state government budget and cash grants; and (ii) downward/upward by 100 percent of the excess/shortfall of cash privatization receipts. The adjustment for shortfalls in adjustors (i) and (ii) is to be limited to \$15 million each, valued at the program exchange rate, excluding the amortization payments for the release of the NBKR's pledged foreign reserves.

²The NBKR's net foreign assets consist of net international reserves, as defined in this Annex, plus other foreign assets plus the net claims on other BRO countries.

Ceiling on the cumulative fiscal deficit of the state government

13. The ceiling on the state government fiscal deficit is defined as the negative sum of: (i) the change in the stock of net claims of the domestic banking system and nonfinancial institutions—including state-owned enterprises and public companies—and households on the state government; (ii) the change in the stock of net claims of the foreign banking system and nonfinancial institutions and households on the state government; (iii) net privatization receipts; (iv) net foreign loans disbursed to the state government for budgetary support; (v) net foreign loans disbursed to the state government for project financing; and (vi) rescheduling of bilateral debt (principal and interest payments), following the Paris Club agreement. The fiscal balance will be measured at the program exchange rates, excluding valuation gains and losses on all foreign currency denominated assets and liabilities arising from exchange rate fluctuations.

14. The change in the stock of net claims of the domestic and foreign banking systems on the state government is defined as the change in the stock of claims of these banking systems on the state government less the change in the stock of all deposits of the state government with these banking systems. The claims of these banking systems on the state government include: (i) bank loans to state government; (ii) securities or bills issued by the state government held by banks with the exception of those issued in relation with bank rescue operations; and (iii) overdrafts on the current accounts of the state government with banks.

15. The program ceilings on the cumulative fiscal deficit of the state government are reported in Table 4 below.

Table 4. Ceilings on the Cumulative Fiscal Deficit of the State Government 1/ 2/

	(In millions of soms)
March 31, 2003 (actual)	2,390
June 30, 2003 (benchmark)	3,351
September 30, 2003 (performance criterion)	4,401
December 31, 2003 (indicative target) 3/	915

1/ Cumulative beginning from October 1, 2002.

2/ In the event the base value of March 31, 2003 is revised, the program targets will be revised by the same amount.

3/ Cumulative beginning from October 1, 2003

Cumulative floor on state government tax collections in cash

16. Tax collections in cash correspond to the line “TV. Tax Receipts” in the Treasury Report and comprise the following categories: 1.0 taxes on income and profits; 4.0 taxes on property; 5.1 VAT on domestic and imported products; 5.1.1.0 retail sales tax; 5.2 excises on domestic and imported products; 5.4 specific taxes on services; 5.5 taxes on use of goods and services; 5.6 taxes on use of natural resources; 6.0 taxes on international trade; 7.0 other taxes. Thus defined, cumulative tax collections in cash since October 2002 amounted to

som 5,343 million as of March 31, 2003. Cumulative tax collections in cash include collections of tax arrears but exclude tax offsets.

17. The program floors for the cumulative tax collection in cash are reported in Table 5 below.

Table 5. Floors on Cumulative Tax Collections in Cash 1/ 2/

	(In millions of soms)
March 31, 2003 (actual)	5,343
June 30, 2003 (benchmark)	8,280
September 30, 2003 (performance criterion)	11,437
December 31, 2003 (indicative target) 3/	3,803

1/ Cumulative from October 1, 2002.

2/ In the event the base value of March 31, 2003 is revised, the program targets will be revised by the same amount.

3/ Cumulative from October 1, 2003.

Ceiling on the stock of central government budget arrears

18. For the purposes of the program, central government budget arrears are defined as an overdue payment obligation of the Republican budget arising since the start of the three-year program period (October 1, 2001) and related to: (i) wages; (ii) Social Fund payroll contributions; (iii) mandatory transfers to the Social Fund; (iv) categorical grants; (v) payments of electricity bills; and (vi) allowances for poor families. A payment is defined to be overdue if it remains unpaid after its due date for (iii) and (iv); for 30 days after its due date for (i) and (ii); for 60 days after its due date for (v); and for 40 days after its due date for (vi). As of September 30, 2002, the stock of thus defined central government budgetary arrears was zero.

19. The program ceilings on the stock of central government budget arrears are reported in Table 6 below.

Table 6. Stock of Central Government Budget Arrears 1/ 2/

	(In millions of soms)
March 31, 2003 (actual)	0
June 30, 2003 (benchmark)	0
September 30, 2003 (performance criterion)	0
December 31, 2003 (indicative target)	0

1/ Cumulative from October 1, 2002.

2/ In the event the base value of March 31, 2003 is revised, the program targets will be revised by the same amount.

Ceiling on the stock of Social Fund pension arrears

20. A pension payment by the Social Fund is defined as overdue if it has come due since the start of the three-year program period (October 1, 2001) and remains unpaid for 30 days or more after its due date. As of March 31, 2003, the stock of pension arrears was zero.

21. The program ceilings on the stock of Social Fund pension arrears are reported in Table 7 below.

Table 7. Stock of Social Fund Pension Arrears 1/ 2/

	(In millions of soms)
March 31, 2003 (actual)	0
June 30, 2003 (benchmark)	0
September 30, 2003 (performance criterion)	0
December 31, 2003 (indicative target)	0

1/ Cumulative from October 1, 2002.

2/ In the event the base value of March 31, 2003 is revised, the program targets will be revised by the same amount.

Floor on the Social Fund payroll tax collections in cash

22. Payroll tax collections in cash correspond to the total contributions collected by the Social Fund from both employers and employees for a given period.

23. The program floors for the Social Fund tax collections in cash are reported in Table 8 below.

Table 8. Floor on Social Fund Payroll Tax Collections in Cash 1/ 2/

	(In millions of soms)
March 31, 2003 (actual)	1,777
June 30, 2003 (benchmark)	2,515
September 30, 2003 (performance criterion)	3,389
December 31, 2003 (indicative target) 3/	1,091

1/ Cumulative from October 1, 2002.

2/ In the event the base value of March 31, 2003 is revised, the program targets will be revised by the same amount.

3/ Cumulative from October 1, 2003.

Ceiling on the stock of Social Fund arrears to the Medical Insurance Fund

24. Social Fund arrears to the Medical Insurance Fund are defined as overdue transfer obligations of the former to the latter as defined by law and refer to arrears incurred starting January 1, 2002. A transfer is defined to be overdue if the value date of any transfer obligation is more than 5 business days after the due date.

25. The program ceiling on the stock of Social Fund arrears to the Medical Insurance Fund are reported in Table 9 below. As of end-March 2003, total arrears of the Social Fund to the Medical Insurance Fund amounted to soms 38 million. No new arrears will be accumulated to the Medical Insurance Fund.

Table 9. Ceiling on the Stock of Social Fund Arrears to the Medical Insurance Fund 1/ 2/

	(In millions of soms)
March 31, 2003 (actual)	38
June 30, 2003 (benchmark)	20
September 30, 2003 (performance criterion)	10
December 31, 2003 (indicative target)	0

1/ Incurred starting January 1, 2002.

2/ In the event the base value of March 31, 2003 is revised, the program targets will be revised by the same amount.

Ceiling on the quasi-fiscal deficit of the energy sector

26. The quasi-fiscal deficit (QFD) of the electricity sector is defined as cost of production minus cash revenues:

$$(1) \text{ QFD} = \text{Q} * \text{MC} - \text{R};$$

$$(2) \text{ Q} = 1 / (1 - \ell) * (\sum \text{Ci});$$

$$(3) \text{ R} = (\sum \text{Ci}) * \text{T} * \text{Ccash},$$

where:

Q is domestic supply (generation plus import minus export) minus normative losses;

MC is marginal cost of production required for efficient supply of Q;

R is total cash revenue;

$\sum \text{Ci}$ is sum of consumption by all end-users (households, industry, agriculture, budgetary institutions, and other);

ℓ is annual average loss rate of excessive (i.e., above normative) technical and commercial losses in percent of Q;

T is annual weighted average of posted (or nominal) tariffs for end-users; and

Ccash is ratio of annual average cash collections to total billing to end-users.

27. For the purposes of the program, the marginal cost is determined as 2.3 US cents per kilowatt hour, and normative losses (including own use) as 10 percent of domestic supply. Total billing of end-users is defined as consumption times the posted nominal tariff. The cash collection component is the amount of bills paid in cash to the energy companies, and excludes any form of cash-to-cash settlements, off-sets, barters, or other non-cash payments.

28. The quasi-fiscal deficit targets are denominated in millions of soms. Defined as above, the quasi-fiscal deficit in the electricity sector amounted to som 9,708 million (or 12.9 percent of GDP) in 2002. The indicative ceiling on the quasi-fiscal deficit in the electricity sector for 2003 is som 9,645 million (or 11.7 percent of GDP), as set out in Table 10 below. In the event the actual end-2002 figure is revised, the 2003 ceiling will be revised by the same amount.

Table 10. Ceiling on Quasi-Fiscal Deficit in the Electricity Sector 1/

	(In millions of soms)
December 31, 2002 (actual)	9,708
December 31, 2003 (indicative target)	9,645

1/ Annual average.

Ceilings on contracting or guaranteeing of new external debt by the state government of the Kyrgyz Republic or the NBKR or any other agency acting on behalf of the state government

29. In connection with the contracting or guaranteeing of external debt by the state government of the Kyrgyz Republic, the NBKR, or any other agency acting on behalf of the state government of the Kyrgyz Republic, 'debt' is understood to have the meaning set out in point 9 of the Guidelines on Performance Criteria with respect to External Debt in Fund arrangements (Decision No. 12278-00/85, dated August 24, 2000).³

³ Debt is understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the

(continued)

30. External debt ceilings apply to (i) the contracting or guaranteeing of short term external debt (i.e. external debt with an original maturity of less than one year, except normal import-related credits and NBKR reserve liabilities); and to (ii) contracting or guaranteeing of nonconcessional medium- and long-term external debt (i.e., external debt with an original maturity of one year or more). Disbursements by the Fund from the PRGF Trust are excluded from the ceilings on external debt. Also excluded from these external debt ceilings is the contracting or guaranteeing of new external debt that constitutes a rescheduling or refinancing of existing external debt at terms more favorable to the debtor. The limit on the contracting or guaranteeing of short-term external debt is zero on a continuous basis throughout the period of the arrangement. The limit on the contracting or guaranteeing of medium- and long-term external debt is zero as specified in Table 1 of the SMEP.

31. For program purposes, a debt is considered concessional if the grant element is at least 45 percent, calculated by using currency specific discount rates based on the Commercial Interest Reference Rates (CIRRs) published by the OECD. A lower grant element will be considered only for new debt committed to replace old debt originally contracted at less favorable terms. The average of the CIRRs over the last 10 years will be used for debts with a maturity of at least 15 years and the average CIRR of the preceding six months will be used for shorter maturities.

Ceiling on new external payments arrears

32. For the purposes of the program, external payments arrears will consist of all debt-service obligations (i.e., payments of principal or interest) arising in respect of any debt contracted or guaranteed or assumed by the state government of the Kyrgyz Republic, or the NBKR, or any agency acting on behalf of the state government of the Kyrgyz Republic since the Kyrgyz Republic's independence, including, without limitations, unpaid penalties, interest charges or judicially awarded damages associated with these arrears owed by the state government of the Kyrgyz Republic, or the NBKR, or any agency acting on behalf of the state government of the Kyrgyz Republic, on imports received subsequent to independence. The ceiling on new external payments arrears shall apply on a continuous

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

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

basis throughout the period of the arrangement. It shall not apply to external payments arrears arising from external debt being renegotiated with external creditors, including Paris Club creditors; and more specifically, to external payments arrears in respect of which a creditor has agreed that no payment needs to be made pending negotiations.

Ceiling on reserve money

33. For the purposes of the program, reserve money consists of currency issued by the NBKR and balances on commercial banks' correspondent accounts with the NBKR. The stock of reserve money amounted to som 7,871 million as of end-March, 2003. The indicative program limits are reported in Table 11 below.

Table 11. Ceilings on Reserve Money 1/

	(In millions of soms)
March 31, 2003 (actual)	7,871
June 30, 2003 (benchmark)	7,986
September 30, 2003 (performance criterion)	8,057
December 31, 2003 (indicative target)	8,122

1/ End-of-period stocks.

II. REPORTING REQUIREMENTS UNDER THE PROGRAM

34. The government and the NBKR will provide the Fund with the necessary economic and financial statistical data to monitor economic developments and the quantitative targets. In particular, the government and the NBKR will provide the following specific information:⁴

The balance sheet of the NBKR

35. The NBKR will provide to the Fund its balance sheet every Monday. The information provided will clearly identify the following items in the definitions specified above: the net foreign assets of the NBKR; the net international reserves of the NBKR; medium- and long-term liabilities; the net domestic assets of the NBKR; net credit from the NBKR to the general government; net credit from the NBKR to commercial banks; the balance of unused PIP funds held in the NBKR; other items net; and reserve money. The balance sheet will be provided valued at the actual exchange rate as well as according to the valuation applied under the program, as specified in Section I. The above information should be provided to the IMF Resident Representative and/or transmitted by e-mail to the Fund.

Monetary survey

36. Monthly banking system data, in the form of a monetary survey, will be reported to the Fund by the NBKR within 14 days of the end of the month. The information provided should clearly identify the following items: net foreign assets and net domestic assets of the banking system, medium- and long-term liabilities, net credit from the banking system to the general government, financing provided to the rest of the economy, other items net, and broad money. The monetary survey will be provided valued at the actual exchange rate as well as according to the valuation applied under the program, as specified in Section I.

37. The NBKR will provide monthly data to the Fund within seven days after the end of the month on the amount of holdings of treasury bills, GKO's, state obligations, state bonds, and other securities issued by the state government, differentiated by the following categories of holders: the NBKR, resident banks, resident nonbanks, and nonresidents. The information will be provided in both the book (nominal) value and the actual value, where applicable.

International reserves and key financial indicators

38. The NBKR will provide detailed monthly data within 14 days from the end of the month on the composition of both its gross and net international reserves in convertible currencies and holdings of monetary gold. These data will be provided at two alternative sets of the exchange rates and the gold price: first, at those used to derive the NFA position in the

⁴Any correction or revisions to the data previously reported should be clearly indicated and documented as to the reasons for revision.

NBKR accounts; second, at those specified in the program (Section I). In addition, weekly reports should be sent to the Fund every Monday on: (a) exchange rates (including the official and interbank exchange rates), foreign exchange interbank market turnover, and the volume of NBKR foreign exchange sales and purchases in the interbank market and with other parties; and (b) treasury bill yields and the amount of treasury bill sales and redemptions. On the 25th day of the month following the reference month, the NBKR will provide data on bank deposit and lending rates by maturity.

Banking system data

39. The NBKR will provide detailed bank-by-bank data within 14 days of the end of the month on commercial banks' compliance with: (a) prudential requirements; and (b) reserve requirements, as well as any penalties, sanctions and other administrative actions imposed on banks.

External debt

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

Budgetary and extrabudgetary data

41. In addition to the monthly treasury report, the Ministry of Finance and the Social Fund will report monthly on all their recorded expenditure arrears, in particular on those defined above in this Annex. This information will be provided to the Fund staff within 26 days from the end of each reference month. The Ministry of Finance will also provide monthly reports on the disbursements and use under the public investment program and budgetary grants with a one-month time lag.

42. The State Energy Agency, in consultation with the Ministry of Finance and the World Bank, will submit to Fund staff by end-September 2003 the first semi-annual report for the electricity sector QFD as specified in Table 12 below, based on end-June 2003 data (structural benchmark).

Table 12. Kyrgyz Republic: Electricity Quasi-Fiscal Deficit, 2002

	2002
Production (GWh) 1/	9,982
Losses (GWh)	3,844
Loss Rate (in percent) 2/	39
Consumption (GWh)	6,138
Tariff (\$ct/kWh) 3/	1.15
Cash Collection Rate (in percent)	33
Effective Tariff (\$ct/kWh) 4/	
cash effect. rate	0.38
total effect. rate	0.98
Cost Recovery Tariff (\$ct/kWh) 5/	2.3
Quasi-Fiscal Deficit	
in percent of GDP	12.9
in \$ millions	206.6
in millions of soms	9,708

1/ Generation plus imports minus exports minus normative losses.

2/ Excess technical and commercial losses as percent of production.

3/ Average posted tariff, calculated as quotient of total bill and consumption volume.

4/ Nominal tariff times cash collection rate

5/ (MC) Based on marginal incremental capital cost.

Balance of payments data

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

Other general economic information

44. The National Statistics Committee will notify the Fund of the monthly Consumer Price Index by category by the 5th business day of the following month, and convey quarterly GDP estimates within two months of the end of each quarter.

Table 13. Program Cross Exchange Rates

	Currency Names	National Currency/US\$	US\$/National Currency
GBP	UK pound sterling	0.6429	1.555399518
DKK	Danish krone	7.5922	0.131714072
EUR	Euro	1.0222	0.978300189
INR	Indian rupee	48.3655	0.020675907
CAD	Canadian dollar	1.5760	0.634518395
CNY	Chinese yuan	8.2772	0.120814167
KRW	South Korean won	1,226.6773	0.000815210
NOK	Norwegian krone	7.4841	0.133616229
TRL	Turkish lira	1,660,664.2599	0.00000602
SEK	Swedish krona	9.3470	0.106986026
CHF	Swiss franc	1.4999	0.666733333
JPY	Japanese yen	122.4359	0.008167538
AZM	Azerbaijani manat	4,897.9844	0.000204166
AMD	Armenian dram	557.9864	0.001792158
BYR	Belarusian rubel	1,864.0246	0.000536474
KZT	Kazakh tenge	154.4674	0.006473857
LVL	Latvian lats	0.6070	1.647446544
LTL	Lithuanian litas	4.0000	0.250000000
MDL	Moldavian lei	13.5746	0.073666751
RUR	Russian ruble	31.6350	0.031610595
TJS	Tajik somoni	2.8730	0.348068712
UZS	Uzbek sum	808.4429	0.001236946
UAH	Ukrainian hryvnia	5.3295	0.187635325
EEK	Estonian kroon	15.9935	0.062525543



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International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Third Review of the Three-Year Poverty Reduction and Growth Facility Arrangement and Approves Request for Waivers of Performance Criteria for the Kyrgyz Republic

The Executive Board of the International Monetary Fund (IMF) today completed the third review of the Kyrgyz Republic's economic performance under the three-year Poverty Reduction and Growth Facility Arrangement (PRGF). The Executive Board also approved a request for waivers for the nonobservance of two structural performance criteria – the measures regarding the extension of the value added tax to large agricultural producers and the new tax law on real property have been implemented, following brief delays. The decision enables the Kyrgyz Republic to draw an amount equivalent to SDR 9.56 million (about US\$13.2 million) under the arrangement.

The Executive Board approved the three-year arrangement effective on December 6, 2001 (see [Press Release No. 01/49](#)) for a total of the equivalent of SDR 73.4 million (about US\$101.7 million).

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in the [Poverty Reduction Strategy Paper \(PRSP\)](#). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

Following the discussion of the Executive Board, Shigemitsu Sugisaki, Deputy Managing Director, and Acting Chairman, said:

“The Kyrgyz Republic continues to make good progress toward achieving the objectives of the program supported by the three-year PRGF arrangement. Macroeconomic performance continues to be strong, with growth recovering from the natural disasters of 2002 and inflation remaining low, and all quantitative macroeconomic targets during the period ending March 2003 were met. The Fund has concluded the third review under the PRGF arrangement on the strength of the authorities’ policies and adherence to the objectives of the program.

“The authorities have achieved fiscal consolidation by containing expenditure growth and improving tax collection. However, continued fiscal adjustment will be necessary for reducing the high debt burden and facilitating increased social spending to reduce the high rate of poverty. In this connection, the authorities have taken difficult steps in adopting key legislation to broaden the base of the value added tax to cover the sales of large agricultural producers and by introducing a real property tax. These measures will strengthen revenues, and improve the efficiency of the tax system.

“The central bank has pursued appropriate monetary and exchange rate policies, which have maintained low inflation and encouraged remonetization of the economy. Although the som has recently appreciated in nominal terms, reflecting strong money demand, relatively low inflation has avoided appreciation of the real effective exchange rate and helped sustain competitiveness.

“Looking forward, the authorities’ priorities will be to maintain prudent fiscal and monetary policies and continue the process of fiscal adjustment. In addition, there is a need to press ahead with privatization, restructure the power sector and strengthen the financial system. Moreover, improving governance and reducing corruption will be essential for creating an environment that will be conducive to high investment, growth, and poverty alleviation”, Mr. Sugisaki said.

**Statement by the IMF Staff Representative on the Kyrgyz Republic
July 16, 2003**

Since the issuance of the staff report , the following information has become available on macroeconomic developments, program performance, and privatization of state enterprises. This information does not alter the thrust of the staff appraisal.

1. **Real GDP is estimated to have increased by 2.3 percent in the first half of 2003 (year-on-year).** Gold production remained below last year's level—excluding Kumtor, real output increased by 4.3 percent. The 12-month rate of inflation was 1.6 percent at end-June 2003, somewhat less than targeted under the program and significantly lower than in neighboring countries. These developments are consistent with the program projections. During the last 12 months, the som has appreciated by about 8 percent against a basket of the U.S. dollar, the euro, the Russian ruble, and the Kazak tenge.
2. **The authorities report that the end-June benchmarks of the monetary program were observed.** The central bank's net international reserves (NIR) exceeded the adjusted program floor by 6½ percent of reserve money. Its net domestic assets (NDA) have reportedly remained below the adjusted ceiling by one percent of reserve money.
3. **Performance under the fiscal program was uneven.** According to preliminary data, the benchmark on the central government fiscal deficit was exceeded by 0.5 percent of GDP. This breach appears temporary as it took place mainly because of a delay in the disbursement of a grant from the European Union—now expected in July. The central government tax collection fell slightly short of the target but the Social Fund payroll taxes exceeded the benchmark, keeping the general government tax collection on track. There were no budgetary or pension arrears.
4. **On June 15, the Swedish company 'Swedtel' won the privatization tender for KyrgyzTelekom.** The bid was \$15.6 million for a controlling share of 51 percent of equity. The authorities are now negotiating with the company the details of the sale agreement.

**Statement by Fritz Zurbrügg, Executive Director for the Kyrgyz Republic
July 16, 2003**

My Kyrgyz authorities thank staff for the ongoing constructive dialogue and the useful policy advice. They would also like to thank management for the continued support of their economic reform efforts. Mr. Aninat's recent visit to Bishkek in connection with the ten year anniversary of the som underscored the important role the IMF has been playing since the country's independence. My authorities would like to express their deep gratitude for his visit, which they took as a recognition of their success in building macroeconomic stability and their commitment to raising the population's living standards.

Program Implementation

The staff report paints a positive picture of the recent economic developments in the Kyrgyz Republic. I believe that this assessment is well deserved. Ownership has been strong, contributing to a highly satisfactory program performance. The recovery of growth in the first semester was most welcome and stems mainly from an increase in industrial production (by 15 percent, after excluding the Kumtor gold mine). Inflation has remained low at 3.7 percent in April and even lower more recently. All end-March quantitative performance criteria have been met. The structural performance criteria and benchmarks have also been met, with the exception of two brief delays that did not affect program objectives, and the delay in the privatization of Kairat Bank. I am very pleased by this strong performance and confident that the results will further encourage my authorities to press ahead with their reform agenda.

On the fiscal side, the March performance criteria were observed. There were no arrears except for those of the Social Fund to the Medical Insurance Fund, which have been reduced in line with the program. As regards the missing of the June benchmark on cumulative fiscal deficit of the state government, my authorities would like to stress that this stems essentially from a slower-than-expected disbursement from the European Union Food Security Grant. The higher fiscal deficit is a temporary phenomenon and in no way puts into question the authorities' performance in the fiscal area. Looking ahead, the recent large landslides in the south of the country together with the revised disbursement pattern for the Public Investment Program require an increase of the third quarter deficit target. For 2003 as a whole, however, the original deficit target has been retained. In order to fight the increasingly severe problem of smuggling of oil products, excise tax rates on oil products had to be aligned with that of neighboring countries. The fiscal impact of this measure is being neutralized, among others, through an increase of the excise tax on cigarettes. Finally, my authorities felt compelled to temporarily increase tariffs on grain and flour imports, a decision which reflected their frustration with trade restrictions in other countries of the region.

External Debt

Last year, the Kyrgyz Republic succeeded in securing a debt restructuring with the Paris Club, resulting in a significant decrease of current debt service obligations. Nevertheless, the

debt stock level is still very high and negatively affects economic prospects of the country. Staff's debt sustainability analysis clearly indicates that medium-term debt sustainability can be achieved only after the provision of Paris Club concessional debt stock relief, and if a low-growth scenario can be avoided. My authorities are aware that reaching the results of the baseline scenario will require continuous implementation of sound policies and strong growth and export performance. Any significant policy slippage or external shock could jeopardize the sustainability of the debt burden in the second half of the decade.

Structural Reforms

The Kyrgyz financial sector shrank substantially following the 1998 crisis. However, it has begun to recover and confidence in the system is growing, evidenced by deposits that have started to grow again and by increased bank lending. In order to further strengthen the sector, a number of measures are being prepared. For example, in accordance with FSAP recommendations, the National Bank of the Kyrgyz Republic will be given a greater role in supervising bank audits. Also, a privatization tender for Kairat Bank will be issued by end-September. On the deposit insurance mechanism, the authorities will set up a working group that will address some of staff's concerns and clarify the necessary prerequisites. Finally, my authorities find it necessary to compensate depositors who have lost their savings following the bankruptcy of the former Soviet Savings Bank in 1996 and other bankruptcies in the aftermath of the 1998 Russian financial crisis. Considerable political pressure has built up in recent months, and they feel it would be wise to address it now rather than during the upcoming general elections when populist pressures will be much greater.

My authorities are well aware that in order to overcome poverty and to sustain growth, further structural reforms are key, particularly in the energy sector, the civil service and the financial system. Concerning the energy sector, my authorities are working toward reducing the quasi-fiscal deficit in the electricity system by half by 2006. Accordingly, a deficit ceiling has been added to the program as an indicative target for 2003. In order to address governance issues, a National Integrity Council has recently been established to coordinate governance reform and reduce corruption. Furthermore, reforms undertaken in the Ministry of Finance will serve as a model for reforms in other government bodies, aimed at improving the public administration's effectiveness. Functional reviews will be completed of the Ministry of Labor and Social Protection, the Ministry of Justice, the Ministry of Transport and Communications, and the State Property Fund. New laws are also being drafted on the Civil Service and on Government, ensuring the separation of political responsibility from professional accountability and establishing a transparent mechanism for decision making. Furthermore, the government will work with parliament to ensure that the AML/CFT law it adopts is consistent with international best practice.

As regards the privatization of KyrgyzTelecom, the authorities received six bids by end-June and a winner (a Swedish company) has already been selected. The State Property Fund has chosen two internationally reputable firms as consultants and financial supervisors for the privatization.

Regional Cooperation

To conclude, let me stress one point to which my authorities attach particular attention. They view closer regional cooperation as a crucial ingredient for the economic development not only of Kyrgyz Republic but the whole of Central Asia. They strongly believe in the need for concerted harmonization of regulatory parameters, the creation of a common payment system, the convergence of legislations, the liberalization of foreign currency regimes, and the integration of financial markets. There is a big potential for more regional trade and cooperation. The Kyrgyz Republic has joined the World Trade Organization some five years ago, thereby clearly stating the strive to develop its trade relations with all countries based on internationally recognized principles. My authorities have also firmly welcomed the “CIS-7 Initiative” aimed at promoting economic growth and poverty reduction in the region. They look forward to further progress in strengthening regional cooperation.