

**Kyrgyz Republic: Second Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for Modification of Performance Criteria—Staff Report; and Press Release**

In the context of the second review under the three-year arrangement under the Extended Credit Facility, the following documents have been released and are included in this package:

- The staff report for the second review under the three-year arrangement under the Extended Credit Facility and request for modification of performance criteria, prepared by a staff team of the IMF, following discussions that ended on March 14, 2012, with the officials of Kyrgyz Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 12, 2012. 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 Press Release summarizing the views of the Executive Board.

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

Letter of Intent sent to the IMF by the authorities of Kyrgyz Republic\*  
Poverty Reduction Strategy Paper  
Technical Memorandum of Understanding\*

\*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

**Second Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for Modification of Performance Criteria**

Prepared by the Middle East and Central Asian Department  
(In consultation with other departments)

Approved by Juha Kähkönen (MCD) and Thomas Dorsey (SPR)

April 12, 2012

**Executive Summary**

**Political context.** A new, reform-minded government took office in December 2011 following presidential elections.

**Background.** In 2011, the economy expanded strongly, supported by robust domestic demand and strong exports. Headline inflation decelerated sharply at end-2011, but core inflation remains high. Buoyant revenue collection and significant shortfalls in external financing led to a lower-than-programmed fiscal deficit for 2011. The overall health of the banking sector continued to improve but vulnerabilities remain. The uncertain global economic environment and potential policy slippages pose downside risks to the near-term outlook. While the fiscal deficit will rise somewhat in 2012, medium-term fiscal consolidation remains key to macroeconomic stability. Implementing public financial management and financial sector reforms and further improving the business environment will be critical. The set-up and operations of the State Development Bank needs to be in line with the principles of good governance and transparency.

**Program.** The Executive Board completed the first review under the three-year ECF arrangement on December 7, 2011, making available the second disbursement in the amount of SDR 9.514 million. The program is on track with all end-December 2011 quantitative performance criteria, indicative targets, and all but one structural benchmarks met. The authorities are requesting the third disbursement (SDR 9.514 million) to become available upon completion of this review.

**Discussions.** The team comprised C. Beddies (head), D. Amaglobeli, B. Shukurov (all MCD), B. Rayner (SPR), and K. Gvenetadze (Resident Representative). Discussions were held in Bishkek during February 29–March 14, 2012. The mission met with President Atambaev, Speaker of Parliament Jeenbekov, Prime Minister Babanov, Vice Prime Minister Otorbaev, Minister of Finance Japarov, Chairperson of the National Bank of the Kyrgyz Republic Asankojoeva, Minister of Economy and Antimonopoly Policy Sariyev, other senior government officials, and representatives of the donor community, the private sector, and civil society. Mr. Duperrut (OED) also participated. A parallel LEG mission headed by D. Knight assisted the authorities with the development of a comprehensive Banking Code.

Contents	Page
I. Recent Developments and Outlook .....	4
A. Political Context.....	4
B. Economic Developments.....	4
C. Program Implementation.....	6
D. Medium-Term Outlook and Risks .....	9
II. Policy Discussions.....	10
A. Fiscal Policy .....	10
B. Monetary Policy .....	12
C. Financial Sector Policies .....	12
D. Structural Reforms and Poverty Reduction Strategy .....	15
III. Program Issues .....	17
IV. Staff Appraisal .....	18
Boxes	
1. Core Inflation in the Kyrgyz Republic.....	5
2. Medium-Term Development Program of the Kyrgyz Republic (MTDP) .....	16
Text Tables	
1. Financial Soundness Indicators for the Banking System, 2009–11 .....	6
2. General Government Budget, 2010–14 .....	11
3. Balance of Payment Financing Gaps, 2012–14 .....	17
Figure	
1. Macroeconomic Developments .....	8
Tables	
1. Selected Economic Indicators, 2010–17.....	20
2. Balance of Payments, 2010–17.....	21
3. NBKR Accounts, 2010–12 .....	22
4. Monetary Survey, 2010–12.....	23
5. General Government Finances, 2010–14 (in millions of soms) .....	24
6. General Government Finances, 2010–14 (in percent of GDP).....	25
7. State Government Finances, 2010–14 (in millions of soms).....	26
8. State Government Finances, 2010–14 (in percent of GDP) .....	27
9. Social Fund Operations, 2010–14.....	28
10. General Government Operations, GFSM 2001 Presentation, 2010–14.....	29
11. Proposed Reviews and Disbursements under the Three-Year Extended Credit Facility Arrangement .....	30
12. Indicators of Capacity to Repay the Fund, 2012–17.....	31

13. Quantitative Performance Criteria and Indicative Targets under the Extended Credit Facility, June–December 2011.....	32
14. Structural Benchmarks under the Extended Credit Facility for 2011 and 2012.....	33
Attachments	
I. Letter of Intent.....	34
II. Technical Memorandum of Understanding.....	43

## I. RECENT DEVELOPMENTS AND OUTLOOK

### A. Political Context

1. Following presidential elections, a new four-party government was formed in December 2011. The Kyrgyz Republic has been steadily emerging from a deep political crisis in 2010. Presidential elections took place on October 30, 2011 and President Atambaev was inaugurated on December 1, 2011. The former first vice prime minister was elected prime minister. The number of ministries was reduced from 18 to 15, some of their functions were modified, and other government agencies have been overhauled. The new government attaches a high priority to establishing a business environment conducive to investment and private-sector growth.

### B. Economic Developments

2. **Macroeconomic outcomes in 2011 have been generally strong (see Tables 1–10 and Figure 1).**

- GDP grew by 5.7 percent in 2011 after negative growth in 2010. Growth was broad-based with the exception of construction. In the first two months of 2012, the economy contracted owing to lower gold production.<sup>1</sup>
- Receding global food prices and the recovery in agriculture helped decrease headline inflation from over 22 percent in mid-2011 to 5.7 percent at end-2011 and further to 2.4 percent in February 2012. Tight monetary policy has helped to contain core inflation, which, however, remains in double digits (see Box 1).
- The current account deficit narrowed to 3.1 percent of GDP in 2011 from 6.9 percent in 2010 as growth in Russia and Kazakhstan and favorable gold prices sustained high growth of remittances and exports. However, remittance growth slowed in the last months of 2011 owing to a weaker regional environment. The slow-down and the end of the summer tourism season resulted in depreciation pressures on the som toward the end of 2011.

3. **These outcomes have been supported by prudent monetary and fiscal policies.**

- The 2011 budget outcome was better than programmed, reflecting both higher nominal revenues and expenditure underexecution. The overall deficit decreased by 1½ percent of GDP in 2011 relative to 2010, and was 1¼ percent of GDP smaller than targeted. Improved customs valuation, tax administration measures, high gold prices, and the rebounding economy have helped to raise tax revenue collections by 34 percent relative to 2010. Taxes collected at the border increased by almost 50 percent. Current spending

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<sup>1</sup> Production at the main gold mine is expected to concentrate in the second half of 2012.

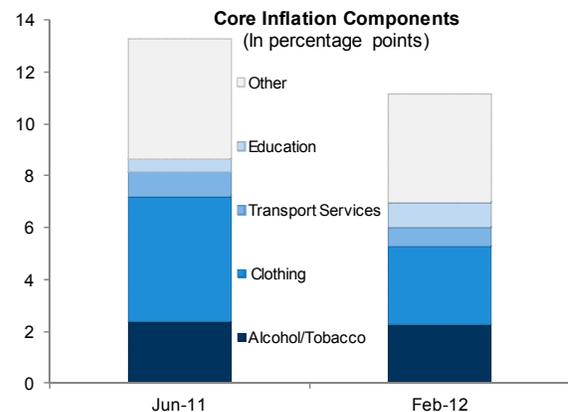
increased by less than originally programmed as refinements to the wage reform permitted more accurate accounting of its budgetary impact. Shortfalls in external financing forced the government to reduce capital spending.<sup>2</sup>

- The National Bank of the Kyrgyz Republic (NBKR) continued to maintain a tight monetary policy stance and intervene only to smooth excessive exchange rate volatility.

### Box 1. Core Inflation in the Kyrgyz Republic

**Core inflation is a key anchor for monetary policy.** To calculate core inflation, the NBKR excludes from the CPI food, a volatile component that represents about 46 percent of the CPI, and seasonal and administered services prices such as fuel and energy. The pass-through from international food and fuel prices to domestic prices is quick and relatively complete (see Box 3 in Country Report 11/155).

**The sharp rise in international food and fuel prices in 2010 led to broader inflationary pressures.** Core inflation rose from 6 percent in June 2010 to 13 percent in January 2011. While the timely monetary tightening helped to contain core inflation, it remained stubbornly high at around 13 percent until June 2011, fueled by growing remittances inflows. Higher wages and pensions are also likely to have contributed to persistently high core inflation throughout the year, although it has started to decline gradually, reaching about 11 percent at end-February 2012. The main drivers of core inflation include alcohol and tobacco, clothing, and transport and education services. The contribution of clothing and transport services to core inflation has declined compared to end-June 2011, while that of education has risen slightly.



**The NBKR can improve policy effectiveness by enhancing public communication.** It is important to communicate to the public regularly why the NBKR is, or is not, responding to fluctuations in headline inflation. As inflation expectations have not yet been anchored to the full extent given that core inflation remains elevated, maintaining tight monetary policy is essential.

<sup>2</sup> The Eurasian Economic Council (EURASEC) Anti Crisis Fund (ACF) did not approve a US\$106.7 million (1.8 percent of GDP) disbursement for the Kyrgyz Republic in October 2011. This shortfall in external program financing has triggered a program adjustor, reducing the 2011 fiscal deficit target commensurately.

#### 4. **The banking sector remains vulnerable despite improvements in system-wide financial stability indicators.**

- Private sector credit grew by 21 percent in 2011 on strong demand across sectors. The rapid growth of lending was supported by strong capital adequacy that remained at about 30 percent throughout the year (the minimum capital requirement is 12 percent). At the same time, nonperforming loans (NPLs) declined to 10 percent at end-2011 from 16 percent a year earlier helped by strong economic growth. Profitability of the banking system has substantially improved following the collapse in profits in 2010.
- However, a few institutions pose risks. Nationalized Zalkar bank remains unresolved after the auction process failed to attract a reputable buyer. The Affordable Loans for Farmers (ALF) program and other potential government supported programs expose two state-owned banks to higher credit risks, particularly the second largest bank—Savings and Settlement Company (SSC).<sup>3</sup> Resolution of the four banks under conservatorship is impeded by ongoing litigations due to weaknesses in the bank resolution framework.

Text Table 1. Kyrgyz Republic: Financial Soundness Indicators for the Banking System, 2009–11

	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Capital adequacy									
Regulatory capital to risk-weighted assets	33.5	31.7	25.4	23.1	30.4	30.4	28.2	29.7	30.3
Capital to total assets	20.5	19.6	18.0	16.0	19.7	20.1	18.7	19.8	20.1
Asset quality									
Nonperforming loans (NPLs) to gross loans 1/	8.2	7.9	13.7	16.8	15.8	13.8	12.3	11.4	10.2
Provisions to NPLs 1/	58.4	57.5	52.8	62.7	67.7	59.6	59.8	59.2	61.6
Earnings and profitability									
Return on equity 2/	13.6	12.5	-58.0	-51.3	7.1	13.3	14.4	14.6	17.7
Return on assets 2/	2.5	2.4	-11.2	-9.3	1.1	2.5	2.7	2.7	3.0

Source: National Bank of the Kyrgyz Republic.

1/ In March 2011, some NPLs were transferred from Zalkar bank to the old AUB and left the system.

2/ AUB is included.

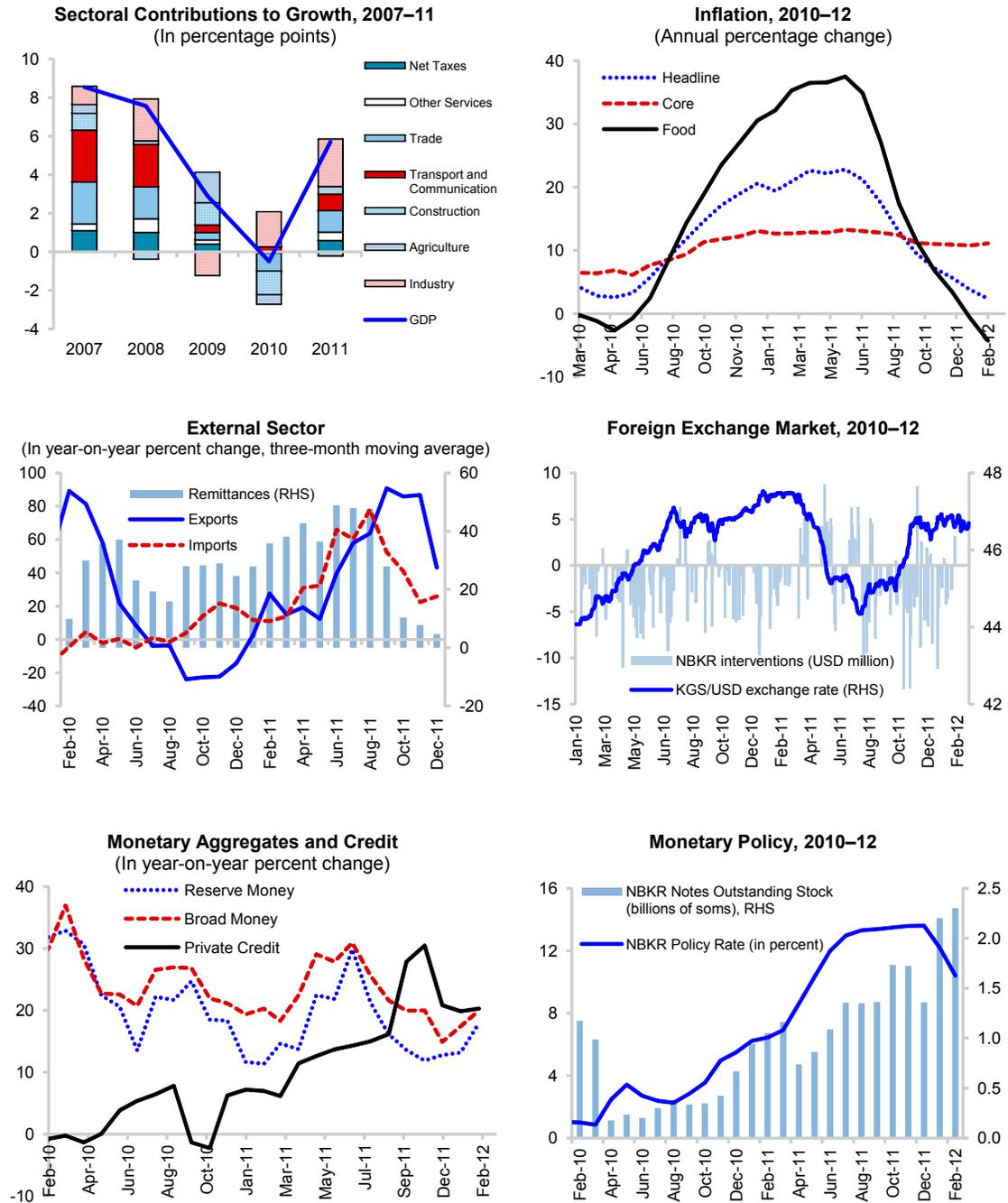
### C. Program Implementation

5. **The program remains on track.** All end-December 2011 quantitative performance criteria, indicative targets, and the structural benchmark on the establishment of a government commission to oversee public financial management (PFM) reforms were met (see Tables 13–14). The end-March 2012 structural benchmarks on adopting a decree to extend treasury coverage to the remaining extra-budgetary funds, including the Social Fund, and developing and adopting a medium-term debt management strategy have been implemented. The authorities request to replace the structural benchmark on the privatization

<sup>3</sup> Under the ALF program the government lends to state-owned commercial banks for further onlending to farmers at pre-determined (subsidized) interest rates. The government is contemplating to support the microfinance sector under a similar mechanism.

of Zalkar bank with two new benchmarks that will increase the chances for a successful privatization. The authorities are making progress toward meeting the structural benchmark on the finalization of the Banking Code but ask to delay the benchmark to end-March 2013 as more time and further international assistance is needed (LOI ¶10, ¶11).

Figure 1. Kyrgyz Republic: Recent Economic Developments



Sources: Kyrgyz authorities, and Fund staff estimates.

## D. Medium-Term Outlook and Risks

6. **The expected economic slowdown in the main economic partners is likely to weigh on growth but the outlook is generally positive.**

- Growth is expected to decline to 5 percent in 2012 consistent with lower projected global growth than at the time of the first review. In line with a gradual global recovery and helped by strong private sector credit growth and ongoing structural reforms geared toward enhancing the business environment, growth is projected to increase to 5.5 percent during 2013–14. Prudent fiscal and monetary policies in line with the program will help contain inflation to 8 percent this year and 7 percent over the medium term.
- The current account deficit is expected to widen from 3.1 percent of GDP in 2011 to 4.8 percent in 2012 due to the slowdown in growth of nongold exports and remittances, while continued high oil prices and purchases of capital equipment related to an energy infrastructure project and investments by the major gold-mining company are expected to keep imports high. Over the medium term, the current account deficit is expected to decline to about 3 percent of GDP.

7. **Downside risks to the outlook remain.** Although the recent presidential elections and new cabinet appointments have set the stage for political stability, political and implementation risks, including changes in the cabinet and coalition and policy slippages, remain. The Kyrgyz Republic also remains vulnerable to external shocks. A global downturn could spill over to the Kyrgyz economy via a slowdown in Russia, the main source of remittances. Higher oil prices, for example owing to potential supply disruptions, would adversely affect the external position.<sup>4</sup> The impact of a prolonged European crisis on the banking system is likely to be limited given the small size of local subsidiaries relative to their parent banks.<sup>5</sup> Given the back-loaded profile of gold production in 2012, any delays in accessing the anticipated high-grade zone could result in significantly lower output. High gold prices, which typically move countercyclical to global economic performance, are a mitigating factor (also see the box in Country Report 11/354).

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<sup>4</sup> For example, a 30 percent increase in oil prices would lead to an increase in the current account deficit by some 4 percent of GDP in 2012, with reserve coverage dropping to three months of imports.

<sup>5</sup> The impact of a deterioration of the health of Kazakhstani banks on the banking system in the Kyrgyz Republic is also expected to be limited as the share of Kazakhstani banks' assets in the Kyrgyz banking system is only 5 percent.

## II. POLICY DISCUSSIONS

### A. Fiscal Policy

**8. The fiscal deficit (excluding energy infrastructure projects) in 2012 is expected to be lower than projected at the time of the first review.**

- In light of the uncertain global outlook, the authorities have agreed to accelerate medium-term fiscal consolidation to rebuild policy buffers.
- Because of fiscal overperformance in 2011, the projected deficit excluding the energy infrastructure project in 2012 will be slightly higher than the 2011 outturn (4.6 versus 4.1 percent of GDP, respectively).
- Financing will be approximately equally split between domestic and external sources. Domestic financing will include receipts from the large-scale privatization delayed from 2011. No ACF financing will be assumed for this year because of continued uncertainties (LOI ¶5). In case ACF financing becomes available this year, the authorities have agreed to save 70 percent of the disbursed amount to replenish the treasury balances at the central bank.

**9. Raising tax revenues during 2012 is a key priority, along with efforts to reduce discretionary current spending.**

- Gold-related tax revenues are expected to decline because this year's concentration of production towards the end of 2012 will push some revenues to 2013 (about 0.3 percent of GDP). Tax policy measures developed in 2011 and continued emphasis on strengthening tax and customs administration will, however, help raise revenues by 1 percent of GDP.<sup>6</sup> Policy changes that reduce the tax base or rates will be accompanied by offsetting revenue measures (LOI ¶4).
- Improved monitoring of state-owned enterprises' (SOEs) finances introduced in the fall of 2011 (structural benchmark) is boosting revenues from dividends. However, nontax revenues in percent of GDP are projected to decline compared to 2011 because of the ongoing reform that will reduce government services and their corresponding revenues from fees (there was also a large one-off dividend payment in 2011—0.2 percent of GDP).
- Overall spending will be slightly higher in 2012 compared to 2011 but lower than projected at the time of the first review. The full year impact from higher wages and

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<sup>6</sup> These tax policy and administration measures were adopted by the authorities during 2011 and were supported by the ECF. In addition to these measures the authorities plan to broaden the tax base by limiting VAT exemptions on medicine and to create a viable VAT-refund system for imported oil for refining purposes. These additional measures are expected to offset the revenue losses from gold mining.

pensions introduced in 2011 and a further increase in pensions this year will raise current spending by over 2 percent of GDP. The average pension is expected to increase by a total of about 16 percent to bring it closer to the minimum subsistence level (currently US\$85 for retirees).<sup>7</sup> At the same time, civil service reform, which aims at about 15 percent retrenchment in the bureaucracy and disposal of some 700 service vehicles, is expected to generate savings of about 0.3 percent of GDP. In line with program commitments, no further increase in nominal wages is planned during 2012. Capital expenditures are projected to increase compared to 2011 mainly because of higher energy infrastructure project spending.

Text Table 2. Kyrgyz Republic: General Government Budget, 2010–14  
(In percent of GDP)

	2010		2011			2012		2013		2014	
	Act.	CR/11/354	Prel.	CR/11/354	Proj.	CR/11/354	Proj.	CR/11/354	Proj.		
Total revenue and grants	30.5	33.6	33.3	32.7	32.9	31.7	31.9	31.2	31.3		
Total revenue	27.7	30.1	30.2	29.7	30.6	30.1	30.5	30.2	30.4		
Tax revenue	22.3	24.0	24.2	25.1	25.2	25.4	25.3	25.5	25.3		
Nontax revenue	5.0	5.8	5.7	4.3	5.1	4.4	4.9	4.4	4.8		
Capital revenue	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3		
Grants	2.8	3.5	3.2	2.9	2.2	1.5	1.3	1.0	0.8		
Total expenditures and net lending	36.6	41.9	38.0	39.6	38.8	38.7	37.7	36.3	35.3		
Current expenditures	31.0	34.6	32.4	32.6	32.8	31.7	31.2	31.0	30.0		
Capital expenditures	5.4	7.3	5.8	7.2	6.2	7.0	6.4	5.2	5.3		
Of which: Energy infrastructure projects	0.0	0.7	0.7	1.5	1.4	2.1	2.0	1.3	1.4		
Net lending	0.3	0.1	-0.1	-0.3	-0.1	0.0	0.0	0.0	0.0		
Discrepancy	-0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0		
Overall balance	-6.3	-8.3	-4.8	-6.9	-6.0	-7.0	-5.8	-5.1	-4.0		
Primary balance excluding grants	-8.2	-10.7	-7.0	-8.8	-7.1	-7.6	-6.2	-5.2	-4.0		
Overall balance excluding energy infrastructure projects	-6.3	-7.6	-4.1	-5.4	-4.6	-4.9	-3.8	-3.8	-2.6		
Financing	6.3	8.3	4.8	6.9	6.0	7.0	5.8	5.1	4.0		
External	3.1	5.5	3.4	3.9	3.6	4.5	4.4	2.8	2.6		
Of which: Energy infrastructure projects	0.0	0.7	0.7	1.5	1.4	2.1	2.0	1.3	1.4		
Domestic (including privatization)	0.5	2.8	1.4	3.0	2.4	2.5	1.4	2.2	1.4		
Of which: Privatization	0.1	0.1	0.1	2.0	1.2	1.1	1.1	1.0	0.7		
Use of KRDF investments abroad	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
<i>Memorandum item:</i>											
GDP (in billions of soms)	220.4	258.9	273.1	292.6	303.9	326.1	338.7	367.1	383.3		

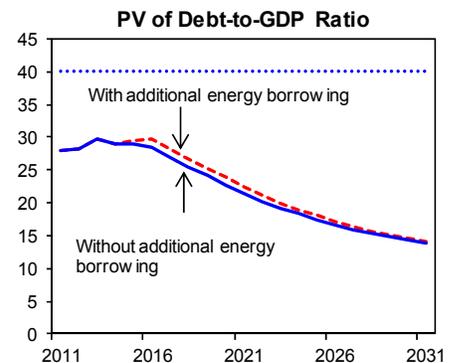
Sources: Kyrgyz authorities, and IMF staff estimates and projections.

10. **Despite some progress in implementing PFM reforms, much still remains to be done.** The recent establishment of a high-level PFM committee was an important step but more time is needed for it to become an effective forum for the prioritization, sequencing, and coordination of PFM reform measures. The ongoing reform to strengthen the organization of the ministry of finance should help reinstate its role as a focal point on fiscal policies and public finance, including macrofiscal forecasting. In this context, moving the tax policy function back to the ministry of finance will be important (LOI ¶4). Upgrading existing standards for controlling and monitoring public procurement operations should help generate fiscal savings and enhance transparency (LOI ¶7).

<sup>7</sup> The minimum subsistence level is calculated by the Kyrgyz authorities on a quarterly basis and is defined as the minimum cost of a representative consumer basket per person necessary for subsistence.

**11. Notwithstanding higher public sector borrowing, the debt burden remains manageable.**

- In the latter part of 2011 the ministry of finance resorted to direct placement of large amounts of treasury securities (about 0.9 percent of GDP), bypassing the established auction system operated by the central bank. While this has allowed the government to raise additional domestic financing (primarily from SOEs), the process was nontransparent and inefficient. The authorities agreed to discontinue this practice (LOI ¶6).
- On the external side, the cost estimate for the second phase of the ongoing energy infrastructure project was revised upwards owing to higher input costs and the addition of new power transformers. Given the importance of this project for the country's energy security and borderline concessionality, the authorities are requesting to raise the current limit on nonconcessional external debt by US\$150 million to US\$400 million (LOI ¶8). The additional borrowing on nonconcessional terms would not significantly affect the debt outlook. The government has signed an agreement to cancel the outstanding debt to Turkey (US\$49.5 million) and agreed on a debt swap operation with Germany (US\$8.5 million) while negotiations to write off the Russian debt (US\$193 million) are still ongoing.



## B. Monetary Policy

**12. The NBKR agreed that the tight monetary stance needs to be maintained in 2012 to further ease pressures on core inflation.** Pressures continue to stem from increased outlays on pensions and salaries. To this end, the NBKR's real policy rate has been increasingly positive since September of last year and reached 8 percent at end-February of this year—compared with negative 14 percent at end-2010). Nonetheless, the NBKR stands ready to tighten monetary policy further if inflationary pressures do not abate. The NBKR will continue to accumulate foreign reserves while intervening in the foreign exchange market only to smooth excessive volatility. Continued close policy coordination between the fiscal and monetary authorities, including through systematic information sharing on planned fiscal and monetary operations, remains critical in monetary management (LOI ¶9).

## C. Financial Sector Policies

**13. The authorities are taking action to address financial sector vulnerabilities.**

- Steps are being taken to revitalize the efforts to privatize and resolve Zalkar bank. The recent failure to attract a reputable buyer reflected the overvaluation of Zalkar bank, the

unconventional auction process, and weak intra-government coordination.<sup>8</sup> While the resolution plan prescribed the disposal of assets and liabilities of the bank (structural benchmark), the authorities believe that the sale of Zalkar as a whole would be more efficient. To this end, DEBRA has signed an agreement with the IFC as the external transaction advisor. The transaction advisor's work will help to ensure an accurate valuation of Zalkar and broader outreach to potential investors, thereby increasing buyer interest.<sup>9</sup> The authorities agree with the staff's proposal to replace the end-February benchmark with two new benchmarks: (i) complete the valuation of Zalkar and disseminate the prospectus (end-June 2012), and (ii) complete the privatization of Zalkar (end-December 2012).

- The government plans to extend 1.5 billion soms in 2012 through SSC and the other state-owned bank for government supported programs (0.6 billion soms have already been on-lent through these banks). Large capital injections by the government into SSC, which already experienced more than three-fold asset growth during the last two years, would allow the bank to resume its rapid expansion. The authorities committed to limit capital injections into SSC this year to 250 million soms with a view to containing SSC's growth (LOI ¶10). The NBKR has been closely monitoring SSC's financial indicators, which so far do not suggest any worrisome trends. The authorities have developed SSC's sales strategy (end-April 2012 structural benchmark). A preliminary assessment of the strategy indicates that follow-up work is needed to further reduce the government's involvement in SSC.
- The NBKR has also been closely monitoring the liquidity positions of other banks including foreign bank subsidiaries, which potentially could be vulnerable due to problems at their parent banks. However, given the small size of these subsidiaries relative to their parent banks, it is unlikely that the latter would turn for funding to the subsidiaries. The NBKR will prepare contingency measures in the event of contagion effects, particularly with respect to liquidity. In this regard, the NBKR is maintaining regular relations with the home supervisor of the foreign bank subsidiaries to ensure close monitoring of the parent banks' financial positions.
- The authorities agreed with staff that the proposed legislation on the protection of interests of those borrowers who suffered during the June 2010 events could undermine financial

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<sup>8</sup> The Agency on Bank Reorganization and Debt Restructuring (DEBRA) did not receive any bids at four auctions that took place between November 2011 and January 2012.

<sup>9</sup> Zalkar, which is the eighth largest commercial bank with one of the most extensive branch networks in the country, including in rural areas, and is therefore important for a smooth functioning of the payment system, was found solvent by KPMG in August 2011. With the involvement of a reputable external transaction advisor to ensure that the sale is well organized and publicized, chances of a successful Zalkar privatization are significantly higher.

stability and intermediation.<sup>10</sup> The initiative would negatively affect financial sector profitability and contribute to higher NPLs by weakening borrower discipline and would discourage future financial intermediation. Having considered the risks, the authorities will object to this proposal pursued by parliament.

- The NBKR has made progress with regard to one of the banks under conservatorship. It is expected that the bank will be removed from conservatorship by end-2012. However, pending litigation cases continue to impede the resolution of the remaining three banks under conservatorship.

14. **The development of the Banking Code provides an opportunity to comprehensively address weaknesses in the financial sector legal framework.** The structural benchmark under the Fund-supported program is primarily aimed at improving the NBKR's powers for early intervention and resolution of problem banks and addressing issues raised by the safeguards assessment related to the financial and institutional autonomy of the NBKR. However, the NBKR seeks to use the development of the Banking Code as an opportunity to comprehensively review and strengthen the legal frameworks for banking supervision, bank resolution, microfinance, central banking, and payments systems oversight. While the NBKR has taken important steps, including by nearly tripling the size of its legal department during 2011, dedicating staff to the completion of the law reform project, and completing a first draft of the Banking Code, further international assistance will be needed to successfully complete the project.<sup>11</sup> Staff supports the authorities' request to extend the deadline for the structural benchmark on the submission of the draft Banking Code to parliament from end-April 2012 to end-March 2013. Two new interim benchmarks on submitting the draft Banking Code to Fund staff by end-April 2012 and to the government by end-December 2012 are also proposed.

15. **With Fund assistance the authorities are preparing an action plan to strengthen the anti-money laundering and combating the financing of terrorism (AML/CFT) regime (LOI ¶12).** The Fund's TA will focus on reviewing the legal framework and assisting the State Financial Intelligence Service (SFIS) and other relevant agencies in reinforcing their functions and bilateral coordination. The authorities will submit amendments to the AML/CFT law and to the relevant provisions of the Criminal Code to the parliament to strengthen the AML/CFT legal framework by end-September 2012 (structural benchmark).

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<sup>10</sup> The draft law required financial institutions to grant concessions to affected borrowers. This initiative could affect a loan portfolio of about US\$237 million (around 25 percent of the total financial sector loans).

<sup>11</sup> The Swiss State Secretariat for Economic Affairs (SECO) has agreed to fund a resident legal advisor to the NBKR whose assignment is expected to begin in May 2012. The advisor, who will be back-stopped by LEG, will help the NBKR in preparing a Banking Code in line with international best practice.

#### **D. Structural Reforms and Poverty Reduction Strategy**

16. **The Medium-Term Development Program (MTDP/PRSP) has been finalized with the assistance of development partners.** The main goal of the reforms under the MTDP/PRSP is to improve the population's living standards and to reduce poverty through economic growth, improvements in the business environment, and building an effective governance system (see Box 2). The MTDP/PRSP is broadly consistent with the ECF. Its objectives are (i) fiscal consolidation, (ii) strengthening public financial management, (iii) safeguarding debt sustainability, and (iv) improving the business environment. A Joint Staff Advisory Note (JSAN) will be submitted to the Board within four months of the transmission of the MTDP/PRSP to the Board.

17. **The authorities have embarked on public administration, governance, and business environment reforms.** Along with efforts to reduce public sector bureaucracy, the government has disbanded the financial police. The authorities have reduced the number of ministries from 18 to 15 and the number of other government agencies from 22 to 19. With cutting the number of government services significantly, the authorities expect the quality and efficiency of public services to improve. The number of licenses and permits has been cut from 500 to 220, and the number of government entities with the authority to inspect businesses has been reduced from 12 to 2. The government is working toward strengthening property rights and adopting a new law on mineral resources to further increase transparency in the mining sector. The authorities are intensifying their efforts in combating corruption. To this end, they have established the state service on fighting economic crimes.

18. **The authorities remain committed to the principles of good governance and transparency.** The work on establishing a State Development Bank (SDB) is progressing. The authorities expect the SDB to support future growth including by developing (i) affordable mortgage lending; (ii) leasing for agriculture; and (iii) loans for farmers and entrepreneurs. In finalizing a law on the SDB, the authorities will continue to consult with IMF staff and other development partners to ensure that the law is consistent with international best practice and good governance and transparency (LOI ¶15). The authorities will also ensure that SDB's internal rules and regulations reflect sound principles of governance, transparency, and accountability and will consult with Fund staff and other development partners prior to approval of these rules and regulations. Staff reiterated the need to channel all public resources to the SDB through the budget.

### **Box 2. Medium-Term Development Program of the Kyrgyz Republic (MTDP)**

**The MTDP presents a comprehensive medium-term strategy that focuses on raising the living standards of the population, thereby reducing poverty.** The main areas of development include the following:

- **Achieving macroeconomic stability.** The MTDP projects ambitious economic growth and strong fiscal consolidation. Prudent fiscal and monetary policies would keep inflation in single digits.
- **Consolidating public finances.** To achieve fiscal sustainability, the government is committed to increase revenues and implement prudent expenditure policy. The MTDP envisions repealing some VAT exemptions, revising the excise policy, modernizing the tax and customs services, and pursuing prudent expenditure policy.
- **Reforming PFM.** The MTDP envisages the design of an assessment system of expenditure effectiveness and the transition to program-based budgeting. In addition, the Treasury will be modernized including through a transition to the single treasury account and introducing electronic public procurement.
- **Access to finance.** The MTDP envisions creating a level playing field for businesses, establishing new financial products, and transferring knowledge through foreign entries.
- **Improving the investment climate.** The authorities will work toward deregulating the economy and reducing state interventions in the business activities, eliminating administrative barriers and restrictions for business development, introducing tools for effective public regulation, and ensuring predictability of the legislation.
- **Efficient management of public assets.** The creation of an “electronic government” will make the communication among government agencies and the provision of government services more efficient. The newly established anti-corruption body will play a significant role in combating corruption.
- **Promoting employment.** The authorities will provide training and retraining to the unemployed, develop the labor market information infrastructure to help the unemployed find jobs, and revise the labor code to ensure more flexibility of the labor market.

**The MTDP is generally consistent with ECF objectives and its near-term priorities are broadly reflected in the 2012 budget.** It describes measures to accelerate structural reforms and enhance the business environment. The MTDP also discusses actions to improve governance and public financial management. Prudent fiscal policy under the MTDP is consistent with the pace of fiscal consolidation under the ECF program. However, economic growth projections in the MTDP are overly ambitious. In addition, the MTDP costing needs to be more realistic.

### III. PROGRAM ISSUES

19. **The authorities request an update to program conditionality for the year ahead.** Revised quantitative performance criteria (QPCs) and indicative targets are proposed for June, September, and December 2012, and for March and June 2013 (LOI Table 1). The structural conditionality is summarized in LOI Table 2. The modifications are in line with the overall program objectives.

20. **Program monitoring will continue to be performed on a semi-annual basis.** The third review will be based on continuous and end-June 2012 QPCs and the fourth review on continuous and end-December 2012 QPCs. Structural conditionality will focus on macro-critical areas, particularly public financial management reform, public debt management, completion of problem bank resolution, and strengthening the bank resolution legal framework and safeguards (LOI Tables 1 and 2).

21. **Financing.** The program is fully financed for the year ahead. The ECF will fill the residual balance of payments gap. The authorities requested that the third and fourth disbursements be directed to the budget.

Text Table 3. Kyrgyz Republic: Balance of Payment Financing Gaps, 2012–14

	2012		2013		2014	
	CR/11/354	Proj.	CR/11/354	Proj.	CR/11/354	Proj.
	(In millions of U.S. dollars)					
Financing Gap	163.8	121.5	136.7	137.5	108.6	106.4
Identified budget support	133.5	92.1	0.0	0.0	0.0	0.0
World Bank	30.0	36.3	0.0	0.0	0.0	0.0
Asian Development Bank	20.0	20.0	0.0	0.0	0.0	0.0
EURASEC Anti Crisis Fund	40.0	0.0	0.0	0.0	0.0	0.0
European Union	43.5	35.8	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified budget support	0.0	0.0	106.5	108.1	93.5	91.7
IMF ECF disbursement	30.3	29.4	30.2	29.4	15.1	14.7
	(In percent of GDP)					
Financing Gap	2.7	1.9	2.1	2.0	1.5	1.4
Identified budget support	2.2	1.4	0.0	0.0	0.0	0.0
World Bank	0.5	0.6	0.0	0.0	0.0	0.0
Asian Development Bank	0.3	0.3	0.0	0.0	0.0	0.0
EURASEC Anti Crisis Fund	0.7	0.0	0.0	0.0	0.0	0.0
European Union	0.7	0.6	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified budget support	0.0	0.0	1.6	1.6	1.3	1.2
IMF ECF disbursement	0.5	0.5	0.5	0.4	0.2	0.2
<i>Memorandum item:</i>						
GDP (in millions of U.S. dollars)	6,087	6,442	6,587	6,970	7,198	7,657

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

#### IV. STAFF APPRAISAL

22. **Strong adherence to the policies agreed under the Fund-supported program has played a pivotal role in achieving economic recovery and macroeconomic stabilization following the political crisis in 2010.** Economic growth was strong and broad-based, supported by remittance inflows and credit growth. Inflation has dropped substantially, although underlying inflationary pressures remain. Fiscal adjustment is on track and banking sector indicators are improving. In light of the uncertain global economic outlook, downside risks remain.

23. **Improving the business climate, good governance, and strong institutions remain key to sustaining strong growth over the medium term.** The authorities' efforts in overhauling the government structure are commendable. Building strong public institutions, creating a vibrant public service, ensuring compliance with the regulatory framework, and combating corruption will help remove significant barriers to growth. Staff stands ready to provide technical support to the authorities in setting up the SDB, to ensure that the SDB is in line with the objectives of the ECF-supported program and will not jeopardize macro-financial stability. It is critical that the authorities continue consultation process with staff to ensure that the SDB law adopted by parliament and subsequent regulations are in line with the objectives of good governance and transparency.

24. **Fiscal consolidation with strong revenue measures and prudent expenditure policies remains key to safeguard macroeconomic stability.** The recent tax policy and administration changes will help raise additional revenues, and any new tax policy initiative to reduce the tax burden should be accompanied by offsetting measures. Furthermore, it is critical that any tax revenue overperformance be used to reduce the fiscal deficit. Strengthening the monitoring of SOE finances should continue. Moreover, mobilization of additional domestic financing should be guided by the long-term goal of developing the government securities market. On expenditures, efforts need to be stepped up to generate savings by reforming the public procurement system and streamlining government services.

25. **The tight monetary policy stance should be maintained to further reduce core inflation.** Although headline inflation has dropped significantly, broader inflationary pressures remain. Possible global price hikes could add to inflationary pressures. The NBKR needs to stay vigilant and stand ready to tighten monetary policy further if underlying inflationary pressures from higher wages and pensions do not subside. Moreover, close coordination between the monetary and fiscal authorities remains key to ensure a smooth implementation of monetary targets.

26. **The banking sector is generally stable, but the NBKR should be vigilant to addressing remaining vulnerabilities.** This particularly applies to the state-owned SSC bank, whose assets continue to grow rapidly due to directed lending to the south following the 2010 events and other government supported programs. Closer monitoring of other

systemically important banks, including those with foreign ownership, is also critical. The resolution of Zalkar bank and completion of the ongoing legal reforms in line with revised program commitments will be essential in restoring credibility in the system and improving investor confidence. The recently overhauled banking supervision department needs to continue strengthening its capacity through increased resources and training, including through the resident advisor.

27. **Staff recommends completion of the second review**, along with approval of the request for modification of the performance criteria for end-June 2012 and the continuous performance criterion on contracting or guaranteeing new nonconcessional external debt by the public sector, and establishment of new performance criteria for end-December 2012. Policies for the remainder of 2012 are appropriate to achieve the program's objectives.

Table 1. Kyrgyz Republic: Selected Economic Indicators, 2010–17

	2010	2011	2012	2013	2014	2015	2016	2017
	Act.	Prel.	Proj.					
Nominal GDP (in billions of soms)	220.4	273.1	303.9	338.7	383.3	426.5	471.6	522.2
Nominal GDP (in millions of U.S. dollars)	4,794	5,920	6,442	6,970	7,657	8,272	8,880	9,547
Real GDP (growth in percent)	-0.5	5.7	5.0	5.5	5.5	5.0	5.0	5.0
Nongold real GDP (growth in percent)	-2.1	6.8	4.9	5.6	5.6	5.0	5.0	5.0
GDP per capita (in U.S. dollars)	875	1,070	1,153	1,235	1,343	1,437	1,527	1,626
Consumer prices (12-month percent change, eop)	18.9	5.7	8.0	7.5	7.1	6.0	6.0	5.0
Consumer prices (12-month percent change, average)	7.8	16.6	4.1	8.1	7.5	6.6	6.0	5.5
Investment and savings (in percent of GDP)								
Investment	23.9	24.4	25.0	25.3	24.3	24.9	25.4	24.3
Public	5.4	5.8	6.2	6.4	5.3	5.8	6.1	5.0
Private	18.5	18.7	18.8	18.9	19.0	19.1	19.3	19.3
Savings	17.0	21.3	20.2	21.1	20.8	21.8	22.3	21.4
Public	-0.4	1.0	0.1	0.6	1.3	3.2	3.8	0.0
Private	17.5	20.4	20.1	20.5	19.4	18.6	18.5	21.4
Savings-investment balance	-6.9	-3.1	-4.8	-4.2	-3.6	-3.1	-3.0	-2.9
General government finances (in percent of GDP) 1/								
Total revenue and grants	30.5	33.3	32.9	31.9	31.3	32.0	32.2	32.2
Of which: Tax revenue	22.3	24.2	25.2	25.3	25.3	25.3	25.6	25.7
Total expenditure (including net lending)	36.6	38.0	38.8	37.7	35.3	34.6	34.5	33.3
Of which: Current expenditure	31.0	32.4	32.8	31.2	30.0	28.8	28.4	28.3
Capital expenditure	5.4	5.8	6.2	6.4	5.3	5.8	6.1	5.0
Overall fiscal balance	-6.3	-4.8	-6.0	-5.8	-4.0	-2.6	-2.3	-1.1
Primary balance	-5.4	-3.8	-4.9	-4.9	-3.2	-1.9	-1.6	-0.4
Primary balance excluding grants	-8.2	-7.0	-7.1	-6.2	-4.0	-3.2	-2.8	-1.6
Overall balance excluding energy infrastructure projects	-6.3	-4.1	-4.6	-3.8	-2.6	-1.3	-1.1	-1.1
Total public debt 2/	60.3	52.4	51.2	51.9	50.5	49.8	49.4	46.6
Banking sector								
Reserve money (percent change, eop)	18.4	12.8	17.5	16.1	16.0	15.7	15.5	15.2
Broad money (percent change, eop)	21.1	14.9	17.6	17.4	17.1	16.9	16.6	16.4
Credit to private sector (percent change, eop)	6.3	20.8	21.2	17.1	15.9	23.0	19.7	22.3
Credit to private sector (in percent of GDP)	13.0	12.2	13.3	14.0	14.3	15.8	17.1	18.9
Velocity of broad money 3/	3.1	3.4	3.3	3.1	3.0	2.8	2.7	2.6
Interest rate 4/	5.5	6.6	...	...	...	...	...	...
External sector								
Current account balance (in percent of GDP)	-6.9	-3.1	-4.8	-4.2	-3.6	-3.1	-3.0	-2.9
Export of goods and services (in millions of U.S. dollars)	2,526	3,394	3,829	4,134	4,694	5,254	5,857	6,539
Export growth (percent change)	-6.3	34.4	12.8	8.0	13.6	11.9	11.5	11.6
Import of goods and services (in millions of U.S. dollars)	3,905	5,073	5,708	6,180	6,879	7,642	8,427	9,274
Import growth (percent change)	6.0	29.9	12.5	8.3	11.3	11.1	10.3	10.1
Gross International reserves (in millions of U.S. dollars)	1,716	1,831	1,946	2,210	2,459	2,795	3,105	3,295
Gross reserves (months of next year imports, eop)	4.1	3.8	3.8	3.9	3.9	4.0	4.0	4.1
External public debt outstanding (in percent of GDP)	55.1	48.1	46.5	47.4	45.7	45.4	45.1	42.3
External public debt service-to-export ratio (in percent)	3.6	2.8	2.5	2.2	2.2	2.0	2.2	2.1
Memorandum items:								
Exchange rate (soms per U.S. dollar, average)	46.0	46.1	...	...	...	...	...	...
Real effective exchange rate (2005=100) (average)	111.8	120.7	...	...	...	...	...	...
Gold related tax receipts of the general government (percent of GDP)	2.0	2.2	...	...	...	...	...	...

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

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

2/ Calculated at end-period exchange rates.

3/ 12-month GDP over end-period broad money.

4/ Interest rate on three-month treasury bills.

Table 2. Kyrgyz Republic: Balance of Payments, 2010–17  
(In millions of U.S. dollars)

	2010	2011	2012	2013	2014	2015	2016	2017
	Act.	Prel.			Proj.			
Current account balance 1/	-332	-183	-312	-295	-272	-253	-269	-279
Excluding transfers	-1,723	-1,998	-2,273	-2,452	-2,698	-2,885	-3,111	-3,292
Trade balance	-1,148	-1,669	-1,911	-2,149	-2,388	-2,676	-3,022	-3,349
Exports, fob	1,833	2,277	2,490	2,673	2,945	3,220	3,461	3,779
CIS countries	838	1,034	1,080	1,190	1,334	1,482	1,584	1,761
Of which: Energy products	74	131	134	134	141	153	160	168
Of which: Re-exports of consumer goods	54	94	99	110	73	41	18	6
Non-CIS countries	995	1,242	1,410	1,483	1,611	1,739	1,877	2,018
Of which: Gold	668	1,006	1,159	1,212	1,288	1,367	1,452	1,542
Imports, fob	2,981	3,946	4,401	4,822	5,333	5,896	6,483	7,128
CIS countries	1,590	2,024	2,246	2,342	2,589	2,836	3,098	3,379
Of which: Energy (including for re-exports)	772	869	1,031	1,034	1,108	1,181	1,259	1,344
Non-CIS countries	1,391	1,922	2,156	2,480	2,744	3,061	3,385	3,749
Of which: Goods for re-exports	49	86	90	100	67	37	16	5
Services	-231	-9	31	102	202	287	452	613
Receipts	693	1,117	1,338	1,460	1,749	2,034	2,396	2,760
Payments	-924	-1,127	-1,307	-1,358	-1,547	-1,746	-1,944	-2,146
Income	-344	-319	-393	-405	-512	-496	-541	-557
Interest payments	-36	-39	-49	-52	-56	-57	-67	-71
Other net income	-308	-280	-344	-353	-456	-439	-474	-485
Current Transfers (net) 1/	1,391	1,815	1,961	2,157	2,425	2,631	2,842	3,013
Of which: Private	1,313	1,716	1,963	2,159	2,427	2,633	2,844	3,015
Capital Account	10	28	247	-33	-66	-17	-14	-14
Official	129	121	347	67	34	83	86	86
Private	-120	-93	-100	-100	-100	-100	-100	-100
Financial account	594	266	78	472	501	554	568	461
Commercial banks	-4	-14	-35	-35	-35	-35	-35	-35
Medium- and long-term loans (net)	81	201	-174	186	165	206	198	82
Disbursement 1/	230	339	251	334	290	323	349	258
Of which: Loan financed PIP	150	142	119	142	90	104	119	131
Of which: Energy and other investments financed by China and Eurasec	0	41	90	137	110	110	110	0
Amortization	-149	-138	-425	-148	-125	-117	-152	-175
Foreign direct investment	438	391	412	396	421	433	455	464
Portfolio investment 2/	164	-40	0	0	0	0	0	0
Other (including SDR allocation)	0	0	0	0	0	0	0	0
Net short-term flows	-75	-138	-125	-75	-50	-50	-50	-50
Errors and omissions	-169	-7	0	0	0	0	0	0
Overall balance	102	104	13	144	163	284	285	168
Financing	-102	-104	-13	-144	-163	-284	-285	-168
Net international reserves	-102	-104	-135	-281	-269	-353	-332	-216
Gross official reserves (-, increase)	-112	-113	-115	-264	-249	-336	-310	-190
IMF	10	9	-20	-17	-20	-17	-23	-26
Exceptional Financing (including arrears)	0	0	0	0	0	0	0	0
Financing gap 1/	0	0	121	137	106	70	47	48
<i>Memorandum items:</i>								
GDP (in millions of U.S. dollars)	4,794	5,920	6,442	6,970	7,657	8,271	8,880	9,547
Current account balance (percent of GDP)	-6.9	-3.1	-4.8	-4.2	-3.6	-3.1	-3.0	-2.9
Current account balance excl. official transfers (percent of GDP) 1/	-8.6	-4.8	-4.8	-4.2	-3.5	-3.0	-3.0	-2.9
Growth of exports of GNFS (volume, percent)	-20.1	18.2	10.6	8.7	8.0	8.0	7.8	7.9
Growth of imports of GNFS (volume, percent)	-15.8	12.2	13.6	9.3	8.7	8.7	7.9	7.7
Terms of trade (goods, percentage change)	-8.8	-4.6	2.2	0.5	0.3	-0.1	-0.2	-0.2
Gold price (U.S. dollars per ounce)	1,225	1,568	1,711	1,731	1,759	1,789	1,825	1,872
Fuel Price Index (2005=100)	146.7	193.3	210.7	202.0	190.5	181.5	175.5	171.8
External Public Debt (in millions of U.S. dollars) 3/	2,644	2,845	2,993	3,307	3,500	3,751	4,001	4,037
As percent of GDP	55.1	48.1	46.5	47.4	45.7	45.4	45.1	42.3
External public debt service-to-exports ratio 3/ 4/	3.6	2.8	2.5	2.2	2.2	2.0	2.2	2.1
Gross reserves 5/	1,716	1,831	1,946	2,210	2,459	2,795	3,105	3,295
In months of subsequent year's imports	4.1	3.8	3.8	3.9	3.9	4.0	4.0	4.1

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

1/ Projected budget support is included in the financing gap.

2/ Includes return of KRDF investments abroad.

3/ Public and publicly-guaranteed debt.

4/ Net of rescheduling.

5/ Valued at end-period exchange rates. The discrepancy between the difference in year-end stocks and the change in reserves under financing is caused by movements in prices and exchange rates.

Table 3. Kyrgyz Republic: NBKR Accounts, 2010–12

	2010	2011				2012			
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
	Act.	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.
	(In millions of soms)								
Net foreign assets	65,127	69,733	71,921	69,306	71,420	70,509	73,019	75,582	79,911
Net international reserves	73,475	78,297	80,123	77,365	79,629	78,780	81,352	83,976	88,367
Long-term foreign liabilities	-8,482	-8,761	-8,368	-8,213	-8,344	-8,407	-8,470	-8,532	-8,595
Other foreign assets	134	197	165	154	135	136	137	138	139
Net domestic assets	-16,529	-24,617	-21,948	-18,092	-16,616	-16,984	-14,680	-15,360	-15,505
Net claims on general government	-2,053	-5,850	-6,258	-4,719	-1,158	-314	757	789	1,253
<i>Of which:</i> Total government deposits (including foreign exchange deposits)	-7,243	-10,904	-10,721	-9,273	-6,480	-5,698	-4,451	-4,481	-4,030
<i>Of which:</i> Securitized government debt	3,027	2,873	2,380	2,471	3,121	3,167	2,974	3,020	3,016
Claims on commercial banks	87	-1,575	-1,290	-1,552	-398	-978	-708	-807	-757
<i>Of which:</i> NBKR Notes	-668	-1,163	-1,088	-1,362	-1,359	-1,538	-1,617	-1,613	-1,410
Claims of other financial corporations	-523	-687	-491	-423	-156	-177	-197	-217	-250
Other items net	-14,040	-16,505	-13,909	-11,398	-14,904	-15,515	-14,531	-15,125	-15,750
Reserve money	48,597	45,117	49,973	51,213	54,803	53,524	58,339	60,222	64,406
Currency in circulation	43,290	40,846	45,544	46,568	49,867	48,703	53,376	55,189	58,504
Commercial banks' reserves	5,307	4,270	4,429	4,646	4,936	4,821	4,963	5,033	5,902
<i>Of which:</i> Required reserves	2,174	2,737	2,810	3,026	3,143	2,897	3,000	3,197	3,403
	(Contribution to reserve money growth, in percent) 1/								
Net foreign assets	26.3	9.5	14.0	8.6	12.9	-1.7	2.9	7.6	15.5
Net domestic assets	-8.0	-16.6	-11.2	-3.2	-0.2	-0.7	3.5	2.3	2.0
<i>Of which:</i> Net claims on general government	-1.0	-7.8	-8.7	-5.5	1.8	1.5	3.5	3.6	4.4
Reserve money	18.4	-7.2	2.8	5.4	12.8	-2.3	6.5	9.9	17.5
<i>Of which:</i> Currency in circulation	18.4	-5.0	4.6	6.7	13.5	-2.1	6.4	9.7	15.8
<i>Memorandum items:</i>									
Reserve money (12-month change, in percent)	18.4	14.6	21.9	16.1	12.8	18.6	16.7	17.6	17.5
Gross International Reserves (in millions of U.S. dollars)	1,716	1,798	1,907	1,842	1,831	1,796	1,833	1,871	1,946
Net international reserves (in millions of U.S. dollars)	1,526	1,622	1,722	1,670	1,650	1,618	1,646	1,688	1,753
Exchange rate, som per U.S. dollar, end of period	47.1	47.2	45.2	45.0	46.5	...	...	...	...

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

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

Table 4. Kyrgyz Republic: Monetary Survey, 2010–12

	2010		2011			2012			
	Dec. Act.	Mar. Act.	Jun. Act.	Sept. Act.	Dec. Act.	Mar. Proj.	Jun. Proj.	Sept. Proj.	Dec. Proj.
	(In millions of soms)								
Net foreign assets	71,425	76,377	78,461	76,686	77,214	76,535	79,514	82,549	87,353
<i>Of which:</i> Long-term foreign liabilities (-)	-2,386	-2,387	-2,271	-2,253	-2,314	-2,332	-2,349	-2,366	-2,384
Net domestic assets	-2,217	-9,729	-5,397	-187	2,314	1,878	4,494	5,375	6,165
Domestic credit	23,379	20,361	22,082	26,006	30,293	31,968	35,601	39,076	40,991
Net claims on general government	-4,195	-7,997	-8,205	-6,009	-3,029	-1,999	-428	1,008	595
Credit to the rest of the economy	27,575	28,358	30,286	32,016	33,322	33,967	36,029	38,068	40,396
<i>Of which:</i> In foreign exchange	14,599	14,758	15,305	16,250	17,510	17,832	18,897	19,947	21,410
Other items net	-25,596	-30,090	-27,479	-26,193	-27,979	-30,091	-31,107	-33,701	-34,826
Broad money (M2X)	69,208	66,648	73,064	76,500	79,528	78,413	84,008	87,924	93,518
<i>Of which:</i>									
Broad money, excluding foreign exchange deposits (M2)	53,745	51,159	56,320	58,722	62,125	61,138	66,185	69,001	73,721
Currency held by the public	41,471	39,014	43,460	44,236	47,220	46,222	50,671	52,397	55,711
Total domestic currency deposit liabilities	12,274	12,145	12,860	14,486	14,906	14,916	15,514	16,604	18,010
	(Contribution to broad money growth, in percent) 1/								
Net foreign assets	19.8	7.2	10.2	7.6	8.4	-0.9	2.9	6.7	12.7
Net domestic assets	1.3	-10.9	-4.6	2.9	6.5	-0.5	2.7	3.8	4.8
Domestic credit	6.0	-4.4	-1.9	3.8	10.0	2.1	6.7	11.0	13.5
Net claims on general government	3.1	-5.5	-5.8	-2.6	1.7	1.3	3.3	5.1	4.6
Credit to the rest of the economy	2.8	1.1	3.9	6.4	8.3	0.8	3.4	6.0	8.9
Other items (net)	-4.6	-6.5	-2.7	-0.9	-3.4	-2.7	-3.9	-7.2	-8.6
Broad money (M2X)	21.1	-3.7	5.6	10.5	14.9	-1.4	5.6	10.6	17.6
<i>Of which:</i>									
Broad money, excluding foreign exchange deposits (M2)	18.0	-3.7	3.7	7.2	12.1	-1.2	5.1	8.6	14.6
Currency held by the public	13.3	-3.5	2.9	4.0	8.3	-1.3	4.3	6.5	10.7
Total deposit liabilities	4.7	-0.2	0.8	3.2	3.8	0.0	0.8	2.1	3.9
<i>Memorandum items:</i>									
Broad money (M2X) (12-month change, in percent)	21.1	18.3	27.9	21.6	14.9	17.7	15.0	14.9	17.6
Credit to the rest of the economy (12-month change, in percent)	6.3	6.1	13.7	16.2	20.8	19.8	19.0	18.9	21.2
Credit to the rest of the economy (in percent of GDP)	13.0	12.9	12.9	12.5	12.2	12.2	12.7	13.2	13.3
M2X velocity 2/	3.1	3.3	3.2	3.4	3.4	3.6	3.4	3.3	3.3
M2X multiplier	1.42	1.48	1.46	1.49	1.45	1.47	1.44	1.46	1.45
Dollarization indicators (in percent)									
Loan dollarization	52.9	52.0	50.5	50.8	52.5	52.5	52.4	52.4	52.3
Deposit dollarization	55.7	56.0	56.6	55.1	53.9	53.7	53.5	53.3	52.4

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

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

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

Table 5. Kyrgyz Republic: General Government Finances, 2010–14

	2010		2011				2012				2013	2014	
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Year	
	Act.	Act.	Act.	Act.	Prel.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	
	(In millions of soms, unless indicated otherwise)												
Total revenue and grants	67,293	18,887	22,922	22,185	27,063	91,057	18,959	25,019	25,276	30,664	99,917	107,889	119,886
Total revenue	61,117	16,455	21,575	20,675	23,727	82,433	18,230	22,676	24,422	27,780	93,108	103,338	116,641
Current revenue	60,230	16,221	21,437	20,494	23,530	81,682	18,051	22,492	24,179	27,411	92,133	102,280	115,482
Tax revenue	49,233	13,987	15,042	17,090	19,909	66,027	15,091	17,509	20,263	23,642	76,505	85,766	96,965
Income tax	13,110	4,864	3,456	4,091	4,711	17,122	3,702	3,960	5,072	6,103	18,837	20,923	23,747
VAT 1/	14,602	3,806	4,742	5,738	6,066	20,353	4,604	5,748	6,671	8,121	25,142	28,132	31,643
Excises	1,689	421	528	647	591	2,187	673	757	794	818	3,042	3,434	3,834
Customs	4,348	1,135	1,575	1,949	2,489	7,147	1,433	1,991	2,243	2,666	8,333	9,169	10,444
Land tax	799	189	201	203	169	762	139	132	216	313	800	920	1,104
Road tax and Emergency Fund 1/	42	0	3	1	5	10	0	0	0	0	0	0	0
New turnover tax 1/	3,699	920	979	1,055	1,175	4,128	1,025	1,155	1,301	1,420	4,901	5,440	6,160
Social Fund (excluding government contribution)	9,870	2,393	2,929	3,114	4,574	13,010	3,197	3,333	3,459	3,943	13,932	16,002	18,027
Other	1,073	260	628	292	128	1,309	318	433	508	259	1,518	1,746	2,008
Nontax revenue	10,997	2,234	6,396	3,404	3,621	15,655	2,960	4,983	3,916	3,769	15,628	16,514	18,516
Capital revenue	887	234	138	181	198	751	179	184	243	369	975	1,058	1,160
Grants	6,176	2,432	1,346	1,510	3,336	8,624	729	2,342	854	2,884	6,809	4,551	3,245
Program grants	3,753	1,588	243	562	1,571	3,963	121	1,521	123	1,548	3,313	2,372	2,628
PIP grants	2,423	844	1,103	949	1,765	4,661	607	821	731	1,336	3,496	2,179	617
Total expenditure (including net lending)	80,741	16,165	25,440	26,967	35,215	103,787	20,678	30,512	30,766	36,106	118,062	127,534	135,218
Total expenditure (excluding net lending)	80,175	16,237	25,479	27,051	35,357	104,125	20,599	30,519	30,889	36,474	118,481	127,534	135,218
Current expenditure	68,246	14,617	21,199	22,910	29,681	88,408	18,633	25,262	25,828	29,957	99,680	105,752	114,818
Wages	16,903	3,709	5,970	5,521	8,540	23,740	5,332	7,958	7,779	8,131	29,200	30,514	32,650
Transfers and subsidies	9,313	2,456	2,781	2,487	3,235	10,958	2,101	2,413	2,299	2,949	9,762	10,277	11,617
Social Fund expenditures	18,993	4,748	5,503	6,105	7,295	23,652	6,764	7,354	7,619	8,475	30,213	34,491	39,033
Interest	1,812	482	1,139	653	482	2,756	893	791	1,149	448	3,281	3,164	3,119
Purchases of other goods and services	21,226	3,222	5,806	8,144	10,129	27,302	3,543	6,745	6,981	9,953	27,224	27,306	28,400
Capital expenditure	11,929	1,620	4,280	4,141	5,676	15,717	1,966	5,256	5,061	6,517	18,801	21,782	20,400
Domestically financed capital expenditure	3,310	181	409	906	1,164	2,659	398	1,120	2,124	1,756	5,398	6,061	9,770
Foreign financed PIP loans	6,196	595	2,768	2,286	2,747	8,397	960	3,315	2,206	3,426	9,907	13,542	10,013
Energy infrastructure projects	...	0	0	1,402	461	1,863	467	940	1,421	1,431	4,259	6,658	5,506
Foreign financed PIP grants	2,423	844	1,103	949	1,765	4,661	607	821	731	1,336	3,496	2,179	617
Net lending 2/	565	-72	-39	-85	-142	-338	78	-6	-122	-368	-419	0	0
Discrepancy	-345	-50	7	-362	18	-387	0	0	0	0	0	0	0
Primary balance excluding grants	-18,157	722	-2,718	-6,001	-10,989	-18,986	-1,555	-7,045	-5,195	-7,878	-21,673	-21,032	-15,458
Primary balance	-11,981	3,154	-1,372	-4,490	-7,653	-10,361	-826	-4,703	-4,341	-4,994	-14,864	-16,482	-12,213
Overall balance	-13,792	2,672	-2,511	-5,143	-8,134	-13,117	-1,719	-5,494	-5,491	-5,441	-18,145	-19,646	-15,332
Overall balance excluding energy infrastructure projects	-13,792	2,672	-2,511	-3,742	-7,674	-11,254	-1,252	-4,554	-4,070	-4,010	-13,886	-12,988	-9,826
Total financing	13,792	-2,672	2,511	5,143	8,134	13,117	1,719	5,494	5,491	5,441	18,145	19,646	15,332
External financing	6,818	1,155	2,686	1,995	3,516	9,351	640	3,322	1,855	5,000	10,817	14,845	9,787
Public investment program	6,196	595	2,768	2,286	2,747	8,397	960	3,315	2,206	3,426	9,907	13,542	10,013
Program support loans	2,282	810	696	0	1,423	2,930	0	685	0	2,261	2,946	3,489	2,523
Total amortization	-1,660	-251	-779	-292	-655	-1,976	-321	-678	-351	-687	-2,036	-2,186	-2,749
Domestic financing	918	-3,827	-179	3,149	4,464	3,606	1,029	1,571	1,436	-413	3,624	1,227	2,863
NBKR	-1,085	-3,797	-408	1,539	3,560	894	844	1,071	32	464	2,411	500	0
Commercial banks	2,205	-5	200	656	-580	272	185	500	1,404	-877	1,212	727	2,863
Nonbank	-202	-26	29	953	1,483	2,440	0	0	0	0	0	0	0
Privatization	173	0	5	0	155	159	50	600	2,200	854	3,704	3,574	2,682
Use of KRDF investments abroad	5,883	0	0	0	0	0	0	0	0	0	0	0	0

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

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

2/ Includes costs of SSC bank capitalization of KGS 400 million in 2011.

Table 6. Kyrgyz Republic: General Government Finances, 2010–14

	(In percent of GDP) 1/													
	2010		2011					2012					2013	2014
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Year	Year	
	Act.	Act.	Act.	Act.	Prel.	Prel.	Proj.							
Total revenue and grants	30.5	40.5	40.3	25.9	32.3	33.3	36.6	39.5	28.3	30.9	32.9	31.9	31.3	
Total revenue	27.7	35.3	37.9	24.1	28.3	30.2	35.2	35.8	27.3	28.0	30.6	30.5	30.4	
Current revenue	27.3	34.8	37.7	23.9	28.1	29.9	34.8	35.5	27.1	27.6	30.3	30.2	30.1	
Tax revenue	22.3	30.0	26.4	19.9	23.7	24.2	29.1	27.6	22.7	23.8	25.2	25.3	25.3	
Income tax	5.9	10.4	6.1	4.8	5.6	6.3	7.1	6.3	5.7	6.1	6.2	6.2	6.2	
VAT 2/	6.6	8.2	8.3	6.7	7.2	7.5	8.9	9.1	7.5	8.2	8.3	8.3	8.3	
Excises	0.8	0.9	0.9	0.8	0.7	0.8	1.3	1.2	0.9	0.8	1.0	1.0	1.0	
Customs	2.0	2.4	2.8	2.3	3.0	2.6	2.8	3.1	2.5	2.7	2.7	2.7	2.7	
Land tax	0.4	0.4	0.4	0.2	0.2	0.3	0.3	0.2	0.2	0.3	0.3	0.3	0.3	
Road tax and Emergency Fund 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	
New turnover tax 2/	1.7	2.0	1.7	1.2	1.4	1.5	2.0	1.8	1.5	1.4	1.6	1.6	1.6	
Social Fund (excluding government contribution)	4.5	5.1	5.1	3.6	5.5	4.8	6.2	5.3	3.9	4.0	4.6	4.7	4.7	
Other	0.5	0.6	1.1	0.3	0.2	0.5	0.6	0.7	0.6	0.3	0.5	0.5	0.5	
Nontax revenue	5.0	4.8	11.2	4.0	4.3	5.7	5.7	7.9	4.4	3.8	5.1	4.9	4.8	
Capital revenue	0.4	0.5	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.3	
Grants	2.8	5.2	2.4	1.8	4.0	3.2	1.4	3.7	1.0	2.9	2.2	1.3	0.8	
Program grants	1.7	3.4	0.4	0.7	1.9	1.5	0.2	2.4	0.1	1.6	1.1	0.7	0.7	
Public investment program (PIP) grants	1.1	1.8	1.9	1.1	2.1	1.7	1.2	1.3	0.8	1.3	1.2	0.6	0.2	
Total expenditure (including net lending)	36.6	34.7	44.7	31.4	42.0	38.0	39.9	48.2	34.4	36.3	38.8	37.7	35.3	
Total expenditure (excluding net lending)	36.4	34.9	44.8	31.5	42.2	38.1	39.7	48.2	34.6	36.7	39.0	37.7	35.3	
Current expenditure	31.0	31.4	37.3	26.7	35.4	32.4	35.9	39.9	28.9	30.1	32.8	31.2	30.0	
Wages	7.7	8.0	10.5	6.4	10.2	8.7	10.3	12.6	8.7	8.2	9.6	9.0	8.5	
Transfers and subsidies	4.2	5.3	4.9	2.9	3.9	4.0	4.1	3.8	2.6	3.0	3.2	3.0	3.0	
Social Fund expenditures	8.6	10.2	9.7	7.1	8.7	8.7	13.0	11.6	8.5	8.5	9.9	10.2	10.2	
Interest	0.8	1.0	2.0	0.8	0.6	1.0	1.7	1.2	1.3	0.5	1.1	0.9	0.8	
Purchases of other goods and services	9.6	6.9	10.2	9.5	12.1	10.0	6.8	10.7	7.8	10.0	9.0	8.1	7.4	
Capital expenditure	5.4	3.5	7.5	4.8	6.8	5.8	3.8	8.3	5.7	6.6	6.2	6.4	5.3	
Domestically financed capital expenditure	1.5	0.4	0.7	1.1	1.4	1.0	0.8	1.8	2.4	1.8	1.8	1.8	2.5	
Foreign financed PIP loans	2.8	1.3	4.9	2.7	3.3	3.1	1.9	5.2	2.5	3.4	3.3	4.0	2.6	
Energy infrastructure projects	0.0	0.0	0.0	1.6	0.5	0.7	0.9	1.5	1.6	1.4	1.4	2.0	1.4	
Foreign financed PIP grants	1.1	1.8	1.9	1.1	2.1	1.7	1.2	1.3	0.8	1.3	1.2	0.6	0.2	
Net lending 3/	0.3	-0.2	-0.1	-0.1	-0.2	-0.1	0.2	0.0	-0.1	-0.4	-0.1	0.0	0.0	
Discrepancy	-0.2	-0.1	0.0	-0.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Primary balance excluding grants	-8.2	1.6	-4.8	-7.0	-13.1	-7.0	-3.0	-11.1	-5.8	-7.9	-7.1	-6.2	-4.0	
Primary balance	-5.4	6.8	-2.4	-5.2	-9.1	-3.8	-1.6	-7.4	-4.9	-5.0	-4.9	-4.9	-3.2	
Overall balance	-6.3	5.7	-4.4	-6.0	-9.7	-4.8	-3.3	-8.7	-6.1	-5.5	-6.0	-5.8	-4.0	
Overall Balance excluding energy infrastructure projects	-6.3	5.7	-4.4	-4.4	-9.2	-4.1	-2.4	-7.2	-4.6	-4.0	-4.6	-3.8	-2.6	
Total financing	6.3	-5.7	4.4	6.0	9.7	4.8	3.3	8.7	6.1	5.5	6.0	5.8	4.0	
External financing	3.1	2.5	4.7	2.3	4.2	3.4	1.2	5.2	2.1	5.0	3.6	4.4	2.6	
PIP	2.8	1.3	4.9	2.7	3.3	3.1	1.9	5.2	2.5	3.4	3.3	4.0	2.6	
Program support loans	1.0	1.7	1.2	0.0	1.7	1.1	0.0	1.1	0.0	2.3	1.0	1.0	0.7	
Total amortization	-0.8	-0.5	-1.4	-0.3	-0.8	-0.7	-0.6	-1.1	-0.4	-0.7	-0.7	-0.6	-0.7	
Domestic financing	0.4	-8.2	-0.3	3.7	5.3	1.3	2.0	2.5	1.6	-0.4	1.2	0.4	0.7	
NBKR	-0.5	-8.2	-0.7	1.8	4.2	0.3	1.6	1.7	0.0	0.5	0.8	0.1	0.0	
Commercial banks	1.0	0.0	0.4	0.8	-0.7	0.1	0.4	0.8	1.6	-0.9	0.4	0.2	0.7	
Nonbank	-0.1	-0.1	0.1	1.1	1.8	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization	0.1	0.0	0.0	0.0	0.2	0.1	0.1	0.9	2.5	0.9	1.2	1.1	0.7	
Use of KRDF investments abroad	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	

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

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

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

3/ Includes costs of SSC bank capitalization of KGS 400 million in 2011.

Table 7. Kyrgyz Republic: State Government Finances, 2010–14

	2010		2011					2012					2013	2014
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Year	Year	
	Act.	Act.	Act.	Act.	Pre.	Pre.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	
(In millions of soms, unless indicated otherwise)														
Total revenue and grants	57,165	16,460	19,951	18,979	22,362	77,753	15,651	21,575	21,706	26,611	85,544	91,424	101,373	
Total revenue	50,989	14,029	18,605	17,468	19,026	69,128	14,922	19,233	20,852	23,727	78,735	86,873	98,128	
Current revenue	50,360	13,828	18,509	17,380	18,955	68,672	14,854	19,159	20,720	23,469	78,202	86,279	97,457	
Tax revenue	39,363	11,594	12,113	13,976	15,335	53,017	11,894	14,176	16,805	19,700	62,574	69,765	78,940	
Income tax	13,110	4,864	3,456	4,091	4,711	17,122	3,702	3,960	5,072	6,103	18,837	20,923	23,747	
VAT 1/	14,602	3,806	4,742	5,738	6,066	20,353	4,604	5,748	6,671	8,121	25,144	28,133	31,644	
Excises	1,689	421	528	647	591	2,187	673	757	794	818	3,042	3,434	3,834	
Customs	4,348	1,135	1,575	1,949	2,489	7,147	1,433	1,991	2,243	2,666	8,333	9,169	10,444	
Land tax	799	189	201	203	169	762	139	132	216	313	800	920	1,104	
Road tax and Emergency Fund 1/	42	0	3	1	5	10	0	0	0	0	0	0	0	
New turnover tax 1/	3,699	920	979	1,055	1,175	4,128	1,025	1,155	1,301	1,420	4,901	5,440	6,159	
Other	1,073	260	628	292	128	1,309	318	433	508	259	1,518	1,746	2,008	
Non-tax revenue	10,997	2,234	6,396	3,404	3,621	15,655	2,960	4,983	3,916	3,769	15,628	16,514	18,516	
Capital revenue	629	200	97	88	71	456	68	74	132	259	533	594	672	
Grants	6,176	2,432	1,346	1,510	3,336	8,624	729	2,342	854	2,884	6,809	4,551	3,245	
Program grants	3,753	1,588	243	562	1,571	3,963	121	1,521	123	1,548	3,313	2,372	2,628	
Public investment program (PIP) grants	2,423	844	1,103	949	1,765	4,661	607	821	731	1,336	3,496	2,179	617	
Total expenditure (including net lending)	69,532	13,749	22,653	23,491	31,166	91,059	17,385	27,068	26,293	32,430	103,176	111,110	118,175	
Total expenditure	68,967	13,821	22,692	23,576	31,307	91,397	17,306	27,075	26,416	32,798	103,595	111,110	118,175	
Current expenditure	57,038	12,201	18,412	19,435	25,632	75,680	15,340	21,818	21,355	26,281	84,794	89,328	97,776	
Wages and Social Fund contributions	19,110	4,144	6,789	6,254	9,749	26,935	6,132	9,197	8,254	10,062	33,645	35,697	38,279	
Transfers and subsidies	9,313	2,456	2,781	2,487	3,235	10,958	2,101	2,413	2,299	2,949	9,762	10,277	11,617	
Transfers to Social Fund	5,577	1,897	1,897	1,897	2,037	7,729	2,671	2,671	2,671	2,868	10,881	12,883	16,360	
Interest	1,812	482	1,139	653	482	2,756	893	791	1,149	448	3,281	3,164	3,119	
Purchases of other goods and services	21,226	3,222	5,806	8,144	10,129	27,302	3,543	6,746	6,982	9,954	27,225	27,307	28,401	
Capital expenditure (including PIP)	11,929	1,620	4,280	4,141	5,676	15,717	1,966	5,256	5,061	6,517	18,801	21,782	20,400	
Domestically financed capital expenditure	3,310	181	409	906	1,164	2,659	398	1,120	2,124	1,756	5,398	6,061	9,770	
Foreign financed PIP loans	6,196	595	2,768	2,286	2,747	8,397	960	3,315	2,206	3,426	9,907	13,542	10,013	
Energy infrastructure projects	0	0	0	1,402	461	1,863	467	940	1,421	1,431	4,259	6,658	5,506	
Foreign financed PIP grants	2,423	844	1,103	949	1,765	4,661	607	821	731	1,336	3,496	2,179	617	
Financial balance	-11,802	2,639	-2,741	-4,597	-8,946	-13,644	-1,656	-5,500	-4,709	-6,187	-18,051	-19,686	-16,802	
Net lending 2/	565	-72	-39	-85	-142	-338	78	-6	-122	-368	-419	0	0	
Discrepancy	233	59	-174	-808	363	-560	0	0	0	0	0	0	0	
Primary balance	-10,323	3,252	-1,737	-4,667	-7,959	-11,111	-841	-4,702	-3,438	-5,370	-14,351	-16,522	-13,684	
Primary balance excluding grants	-16,499	820	-3,083	-6,177	-11,295	-19,735	-1,570	-7,045	-4,292	-8,254	-21,160	-21,073	-16,928	
Overall balance	-12,135	2,770	-2,876	-5,320	-8,441	-13,867	-1,734	-5,493	-4,587	-5,818	-17,632	-19,686	-16,802	
Overall Balance excluding energy infrastructure projects	-12,135	2,770	-2,876	-3,918	-7,980	-12,004	-1,267	-4,553	-3,166	-4,387	-13,374	-13,028	-11,296	
Total financing	12,135	-2,770	2,876	5,320	8,441	13,867	1,734	5,493	4,587	5,818	17,632	19,686	16,802	
External financing	6,818	1,155	2,686	1,995	3,516	9,351	640	3,322	1,855	5,000	10,817	14,845	9,787	
PIP	6,196	595	2,768	2,286	2,747	8,397	960	3,315	2,206	3,426	9,907	13,542	10,013	
Program support loans	2,282	810	696	0	1,423	2,930	0	685	0	2,261	2,946	3,489	2,523	
Total amortization	-1,660	-251	-779	-292	-655	-1,976	-321	-678	-351	-687	-2,036	-2,186	-2,749	
Domestic financing	-2,757	-3,926	186	3,326	4,770	4,356	1,044	1,571	532	-36	3,111	1,268	4,334	
NBKR	-3,660	-3,797	-408	1,539	3,560	894	844	1,071	32	464	2,411	500	0	
Commercial banks	1,106	-103	565	108	-1,156	-586	200	500	500	-1,200	0	768	4,334	
Nonbank	-202	-26	29	1,678	2,366	4,047	0	0	0	700	700	0	0	
Privatization	173	0	5	0	155	159	50	600	2,200	854	3,704	3,574	2,682	
Use of KRDF resources	7,901	0	0	0	0	...	0	0	0	0	0	0	0	

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

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

Median turnover tax rate was reduced from 2.5 percent to 2 percent from January 1, 2010.

2/ Includes costs of SSC bank capitalization of KGS 400 million in 2011.

Table 8. Kyrgyz Republic: State Government Finances, 2010–14

	2010		2011					2012					2013	2014
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Year	Year	
	Act.	Act.	Act.	Act.	Prel.	Prel.	Proj.							
	(In percent of GDP)													
Total revenue and grants	25.9	35.3	35.1	22.1	26.7	28.5	30.2	34.1	24.3	26.8	28.1	27.0	26.4	
Total revenue	23.1	30.1	32.7	20.4	22.7	25.3	28.8	30.4	23.3	23.9	25.9	25.6	25.6	
Current revenue	22.9	29.7	32.5	20.3	22.6	25.1	28.7	30.3	23.2	23.6	25.7	25.5	25.4	
Tax revenue	17.9	24.9	21.3	16.3	18.3	19.4	22.9	22.4	18.8	19.8	20.6	20.6	20.6	
Income tax	5.9	10.4	6.1	4.8	5.6	6.3	7.1	6.3	5.7	6.1	6.2	6.2	6.2	
VAT 1/	6.6	8.2	8.3	6.7	7.2	7.5	8.9	9.1	7.5	8.2	8.3	8.3	8.3	
Excises	0.8	0.9	0.9	0.8	0.7	0.8	1.3	1.2	0.9	0.8	1.0	1.0	1.0	
Customs	2.0	2.4	2.8	2.3	3.0	2.6	2.8	3.1	2.5	2.7	2.7	2.7	2.7	
Land tax	0.4	0.4	0.4	0.2	0.2	0.3	0.3	0.2	0.2	0.3	0.3	0.3	0.3	
Retail sales tax 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	0.0	
New turnover tax 1/	1.7	2.0	1.7	1.2	1.4	1.5	2.0	1.8	1.5	1.4	1.6	1.6	1.6	
Other	0.5	0.6	1.1	0.3	0.2	0.5	0.6	0.7	0.6	0.3	0.5	0.5	0.5	
Nontax revenue	5.0	4.8	11.2	4.0	4.3	5.7	5.7	7.9	4.4	3.8	5.1	4.9	4.8	
Capital revenue	0.3	0.4	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.3	0.2	0.2	0.2	
Grants	2.8	5.2	2.4	1.8	4.0	3.2	1.4	3.7	1.0	2.9	2.2	1.3	0.8	
Program grants	1.7	3.4	0.4	0.7	1.9	1.5	0.2	2.4	0.1	1.6	1.1	0.7	0.7	
Public investment program (PIP) grants	1.1	1.8	1.9	1.1	2.1	1.7	1.2	1.3	0.8	1.3	1.2	0.6	0.2	
Total expenditure (including net lending)	31.6	29.5	39.8	27.4	37.2	33.3	33.5	42.7	29.4	32.6	33.9	32.8	30.8	
Total expenditure	31.3	29.7	39.9	27.5	37.3	33.5	33.4	42.8	29.6	33.0	34.1	32.8	30.8	
Current expenditure	25.9	26.2	32.4	22.7	30.6	27.7	29.6	34.5	23.9	26.4	27.9	26.4	25.5	
Wages and Social Fund contributions	8.7	8.9	11.9	7.3	11.6	9.9	11.8	14.5	9.2	10.1	11.1	10.5	10.0	
Transfers and subsidies	4.2	5.3	4.9	2.9	3.9	4.0	4.1	3.8	2.6	3.0	3.2	3.0	3.0	
Transfers to Social Fund	2.5	4.1	3.3	2.2	2.4	2.8	5.2	4.2	3.0	2.9	3.6	3.8	4.3	
Interest	0.8	1.0	2.0	0.8	0.6	1.0	1.7	1.2	1.3	0.5	1.1	0.9	0.8	
Purchases of other goods and services	9.6	6.9	10.2	9.5	12.1	10.0	6.8	10.7	7.8	10.0	9.0	8.1	7.4	
Capital expenditure (including PIP)	5.4	3.5	7.5	4.8	6.8	5.8	3.8	8.3	5.7	6.6	6.2	6.4	5.3	
Domestically financed capital expenditures	1.5	0.4	0.7	1.1	1.4	1.0	0.8	1.8	2.4	1.8	1.8	1.8	2.5	
Foreign financed PIP loans	2.8	1.3	4.9	2.7	3.3	3.1	1.9	5.2	2.5	3.4	3.3	4.0	2.6	
Energy infrastructure projects	0.0	0.0	0.0	1.6	0.5	0.7	0.9	1.5	1.6	1.4	1.4	2.0	1.4	
Foreign financed PIP grants	1.1	1.8	1.9	1.1	2.1	1.7	1.2	1.3	0.8	1.3	1.2	0.6	0.2	
Financial balance	-5.4	5.7	-4.8	-5.4	-10.7	-5.0	-3.2	-8.7	-5.3	-6.2	-5.9	-5.8	-4.4	
Net lending 2/	0.3	-0.2	-0.1	-0.1	-0.2	-0.1	0.2	0.0	-0.1	-0.4	-0.1	0.0	0.0	
Discrepancy	0.1	0.1	-0.3	-0.9	0.4	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Primary balance	-4.7	7.0	-3.1	-5.4	-9.5	-4.1	-1.6	-7.4	-3.8	-5.4	-4.7	-4.9	-3.6	
Primary balance excluding grants	-7.6	1.8	-5.4	-7.2	-13.5	-7.2	-3.0	-11.1	-4.8	-8.3	-7.0	-6.2	-4.4	
Overall balance	-5.6	5.9	-5.1	-6.2	-10.1	-5.1	-3.3	-8.7	-5.1	-5.9	-5.8	-5.8	-4.4	
Overall Balance excluding energy infrastructure projects	-5.6	5.9	-5.1	-4.6	-9.5	-4.4	-2.4	-7.2	-3.5	-4.4	-4.4	-3.8	-2.9	
Total financing	5.5	-5.9	5.1	6.2	10.1	5.1	3.3	8.7	5.1	5.9	5.8	5.8	4.4	
External financing	3.1	2.5	4.7	2.3	4.2	3.4	1.2	5.2	2.1	5.0	3.6	4.4	2.6	
PIP	2.8	1.3	4.9	2.7	3.3	3.1	1.9	5.2	2.5	3.4	3.3	4.0	2.6	
Program support loans	1.0	1.7	1.2	0.0	1.7	1.1	0.0	1.1	0.0	2.3	1.0	1.0	0.7	
Total amortization	-0.8	-0.5	-1.4	-0.3	-0.8	-0.7	-0.6	-1.1	-0.4	-0.7	-0.7	-0.6	-0.7	
Domestic financing	-1.3	-8.4	0.3	3.9	5.7	1.6	2.0	2.5	0.6	0.0	1.0	0.4	1.1	
NBKR	-1.7	-8.2	-0.7	1.8	4.2	0.3	1.6	1.7	0.0	0.5	0.8	0.1	0.0	
Commercial banks	0.5	-0.2	1.0	0.1	-1.4	-0.2	0.4	0.8	0.6	-1.2	0.0	0.2	1.1	
Nonbank	-0.1	-0.1	0.1	2.0	2.8	1.5	0.0	0.0	0.0	0.7	0.2	0.0	0.0	
Privatization	0.1	0.0	0.0	0.0	0.2	0.1	0.1	0.9	2.5	0.9	1.2	1.1	0.7	
Use of KRDF resources	3.6	...	...	...	...	...	...	...	...	...	...	...	...	

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

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

2/ Includes costs of SSC bank capitalization of KGS 400 million in 2011.

Table 9. Kyrgyz Republic: Social Fund Operations, 2010–14

	2010	2011					2012					2013	2014
	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Year	Year
	Act.	Act.	Act.	Act.	Prel.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In millions of soms)												
Total revenue	12,336	2,862	3,789	3,939	5,910	16,500	4,108	4,683	4,045	5,984	18,820	21,649	24,144
Total contribution	12,078	2,828	3,748	3,846	5,783	16,205	3,997	4,573	3,934	5,874	18,377	21,184	23,656
Other revenue	258	34	42	93	127	295	111	111	111	111	442	464	488
Total expenditure	18,993	4,748	5,503	6,105	7,295	23,652	6,764	7,354	7,619	8,475	30,213	34,491	39,033
Pension Fund	18,222	4,678	5,263	5,840	6,770	22,551	6,448	7,039	7,303	8,159	28,950	33,116	37,556
Medical Insurance Fund (including old funds)	690	63	190	226	499	978	316	316	316	316	1,263	1,376	1,477
Workers' Health Recovery Fund	81	8	50	40	26	123	0	0	0	0	0	0	0
Financial balance	-6,657	-1,887	-1,714	-2,166	-1,385	-7,152	-2,656	-2,671	-3,575	-2,491	-11,393	-12,842	-14,890
Budgetary transfer	5,577	1,897	1,897	1,897	2,037	7,729	2,671	2,671	2,671	2,868	10,881	12,883	16,360
Discrepancy	115	-109	181	446	-345	173	0	0	0	0	0	0	0
Overall balance	-965	-98	365	177	307	750	15	0	-904	377	-512	41	1,470
Financing	965	98	-365	-177	-307	-750	-15	0	904	-377	512	-41	-1,470
Commercial bank deposits	965	98	-365	548	577	858	-15	0	904	323	1,212	-41	-1,470
Government bonds	0	0	0	-725	-883	-1,608	0	0	0	-700	-700	0	0
	(In percent of GDP)												
Total revenue	5.6	6.1	6.7	4.6	7.0	6.0	7.9	7.4	4.5	6.0	6.2	6.4	6.3
Total contribution	5.5	6.1	6.6	4.5	6.9	5.9	7.7	7.2	4.4	5.9	6.0	6.3	6.2
Other revenue	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Total expenditure	8.6	10.2	9.7	7.1	8.7	8.7	13.0	11.6	8.5	8.5	9.9	10.2	10.2
Pension Fund	8.3	10.0	9.2	6.8	8.1	8.3	12.4	11.1	8.2	8.2	9.5	9.8	9.8
Medical Insurance Fund (including old funds)	0.3	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.4	0.4	0.4
Workers' Health Recovery Fund	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
Financial balance	-3.0	0.0	0.0	0.0	0.0	-2.6	0.0	0.0	0.0	0.0	-3.7	-3.8	-3.9
Budgetary transfer	2.5	0.0	0.0	0.0	0.0	2.8	0.0	0.0	0.0	0.0	3.6	3.8	4.3
Discrepancy	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.4	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	-0.2	0.0	0.4
Financing	0.4	0.2	-0.6	0.6	0.7	-0.3	0.0	0.0	1.0	0.3	0.2	0.0	-0.4
Commercial bank deposits	0.4	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.4	0.0	-0.4
Government bonds	0.0	0.0	0.0	0.0	0.0	-0.6	0.0	0.0	0.0	0.0	-0.2	0.0	0.0

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

Table 10. Kyrgyz Republic: General Government Operations, GFSM 2001 Presentation, 2010–14

	2010	2011	2012	2013	2014
	Year	Year	Year	Year	Year
	Act.	Prel.	Proj.	Proj.	Proj.
(In millions of soms, unless indicated otherwise)					
Revenue	68,872	93,796	115,699	112,477	124,843
Taxes	39,363	53,017	62,573	69,764	78,939
Taxes on income, profits, and capital gains	13,110	17,122	18,837	20,923	23,747
Taxes on property	1,664	1,682	1,824	2,062	2,396
Taxes on goods and services	19,990	26,668	33,085	37,006	41,636
General taxes on goods and services	18,301	24,481	30,043	33,572	37,802
Value-added taxes	14,602	20,353	25,142	28,132	31,643
Turnover and other general taxes on goods and services	3,699	4,128	4,901	5,440	6,160
Excises	1,689	2,187	3,042	3,434	3,834
Taxes on international trade and transactions	4,348	7,147	8,333	9,169	10,444
Other taxes	250	398	494	605	716
Social contributions	12,078	16,205	18,377	21,184	23,656
Grants	6,176	8,624	18,678	4,551	3,245
Program grants 1/	3,753	3,963	15,182	2,372	2,628
Project grants	2,423	4,661	3,496	2,179	617
Other revenue	11,255	15,950	16,070	16,978	19,004
Expense	70,454	91,603	104,125	110,935	120,447
Compensation of employees	19,110	26,935	33,645	35,697	38,279
Wages and salaries	16,903	23,740	29,200	30,514	32,650
Social contributions	2,207	3,195	4,445	5,182	5,629
Use of goods and services	21,226	27,302	27,224	27,306	28,400
Interest	1,812	2,756	3,281	3,164	3,119
Subsidies	1,763	2,138	1,603	1,546	2,450
Social benefits	26,543	32,473	38,372	43,222	48,200
Gross operating balance	-1,582	2,193	11,573	1,543	4,396
Net acquisition of nonfinancial assets	11,300	15,261	18,268	21,189	19,728
Acquisition of nonfinancial assets	11,929	15,717	18,801	21,782	20,400
Domestically financed	3,310	2,659	5,398	6,061	9,770
Foreign financed	8,619	13,058	13,403	15,721	10,629
Disposals of nonfinancial assets	-629	-456	-533	-594	-672
Net lending/borrowing (overall balance)	-12,882	-13,068	-6,695	-19,646	-15,332
Statistical discrepancy	345	387	23,738	0	0
Net acquisition of financial assets	-5,279	-1,579	-7,786	-4,034	-1,212
Domestic	604	-1,579	-7,786	-4,034	-1,212
Currency and deposits	211	-1,082	-3,663	-459	1,470
Loans	565	-338	-419	0	0
Sales of equity (privatization proceeds)	-173	-159	-3,704	-3,574	-2,682
Foreign	-5,883	0	0	0	0
Net incurrence of liabilities	7,947	11,876	22,647	15,612	14,120
Domestic	1,129	2,524	-39	768	4,334
Foreign	6,818	9,351	22,686	14,845	9,787
Program loans	2,282	2,930	2,946	3,489	2,523
Public investment program loans	6,196	8,397	9,907	13,542	10,013
Amortization	-1,660	-1,976	9,833	-2,186	-2,749

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

1/ Program grants in 2012 include debt forgiveness by Russia (US\$193.6 million), Turkey (US\$49.5 million), and Germany (US\$8.5 million).

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

Date	Action	Associated Disbursement	Share of Access (In percent)
On June 20, 2011	Approved three-year ECF arrangement	SDR 9.514 million	14.3
On December 7, 2011	Completed the first review based on end-June, 2011 performance criteria	SDR 9.514 million	14.3
On or after April 16, 2012	Completed the second review based on end-December, 2011 performance criteria	SDR 9.514 million	14.3
On or after November 15, 2012	Completed the third review based on end-June, 2012 performance criteria	SDR 9.514 million	14.3
On or after April 15, 2013	Completed the fourth review based on end-December, 2012 performance criteria	SDR 9.514 million	14.3
On or after November 15, 2013	Completed the fifth review based on end-June, 2013 performance criteria	SDR 9.514 million	14.3
On or after April 30, 2014	Completed the sixth and final review based on end-December, 2013 performance criteria	SDR 9.516 million	14.3
Total		SDR 66.600 million	100.0

Source: International Monetary Fund.

Table 12. Kyrgyz Republic: Indicators of Capacity to Repay the Fund, 2012–17 1/

	2012	2013	2014	2015	2016	2017
Fund obligations based on existing credit (In millions of SDRs)						
Principal	13.5	11.4	13.3	11.0	15.0	17.3
Charges and interest	0.0	0.1	0.2	0.2	0.2	0.1
Fund obligations based on existing and prospective credit (In millions of SDRs)						
Principal	13.5	11.4	13.3	11.0	15.0	18.3
Charges and interest	0.0	0.1	0.3	0.3	0.3	0.2
Total obligations based on existing and prospective credit						
In millions of SDRs	13.5	11.4	13.7	11.4	15.3	18.5
In millions of U.S. dollars	20.1	17.1	20.4	17.0	22.8	27.7
In percent of Gross International Reserves	1.0	0.8	0.8	0.6	0.7	0.8
In percent of exports of goods and services	0.5	0.4	0.4	0.3	0.4	0.4
In percent of debt service 2/	21.4	16.8	18.4	15.8	17.6	20.3
In percent of GDP	0.3	0.2	0.3	0.2	0.3	0.3
In percent of quota	15.2	12.9	15.4	12.8	17.2	20.8
Outstanding Fund credit 2/						
In millions of SDRs	124.0	131.6	127.8	116.8	101.8	83.5
In billions of U.S. dollars	0.2	0.2	0.2	0.2	0.2	0.1
In percent of Gross International Reserves	9.5	8.9	7.8	6.2	4.9	3.8
In percent of exports of goods and services	4.8	4.8	4.1	3.3	2.6	1.9
In percent of debt service 2/	196.6	193.2	172.2	162.6	117.3	91.4
In percent of GDP	2.9	2.8	2.5	2.1	1.7	1.3
In percent of quota	139.6	148.2	143.9	131.5	114.7	94.1
Net use of Fund credit (in millions of SDRs)	5.5	7.7	(3.8)	(11.0)	(15.0)	(18.3)
Disbursements	19.0	19.0	9.5	-	-	-
Repayments and Repurchases	13.5	11.4	13.3	11.0	15.0	18.3
<i>Memorandum items:</i>						
Nominal GDP (in millions of U.S. dollars)	6,442	6,970	7,657	8,271	8,880	9,547
Exports of goods and services (in millions of U.S. dollars)	3,829	4,134	4,694	5,254	5,857	6,539
Gross International Reserves (in millions of U.S. dollars)	1,946	2,210	2,459	2,795	3,105	3,295
Debt service (in millions of U.S. dollars) 2/	94.0	101.7	110.9	107.4	129.7	136.6
Quota (millions of SDRs)	88.8	88.8	88.8	88.8	88.8	88.8

Sources: IMF staff estimates and projections.

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

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

Table 13. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, June–December 2011  
(In millions of soms, unless otherwise indicated; eop)

	2011											
	June				September				December			
	QPC				IT				QPC			
	CR/11/155	Adj.	Act.	Status	CR/11/155	Adj.	Act.	Status	CR/11/354	Adj.	Act.	Status
<i>Quantitative performance criteria 1/</i>												
1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars)	1,586	1,583	1,640	Met	1,612	1,496	1,637	Met	1,694	1,586	1,638	Met
2. Ceiling on net domestic assets of the NBKR (eop stock)	-16,016	-15,898	-18,968	Met	-15,189	-9,702	-17,602	Met	-12,384	-7,303	-14,080	Met
3. Ceiling on cumulative overall cash deficit of the general government 2/	3,652	4,017	-161	Met	12,698	6,933	4,982	Met	21,588	16,754	13,117	Met
4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/	450	450	0	Met	450	450	0	Met	250	250	0	Met
5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	Met	0	0	0	Met	0	0	0	Met
<i>Indicative Targets 1/</i>												
1. Ceiling on reserve money	50,390	50,390	49,973	Met	52,464	52,464	51,213	Met	59,116	59,116	54,803	Met
2. Cumulative floor on state government tax collections 2/	22,607	22,607	23,707	Met	35,332	35,332	37,683	Met	50,823	50,823	53,017	Met
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit and Monthly Social Benefit programs 2/	1,255	1,255	1,276	Met	2,027	2,027	2,037	Met	2,800	2,800	2,815	Met

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

1/ As defined in the TMU.

2/ Cumulative from the beginning of the year.

3/ External debt contracted or guaranteed with a grant element less than 35 percent. The limit is cumulative from end-December 2010 and tied to energy infrastructure projects only. Should the total borrowings for these projects be less than US\$250 million, the remaining space cannot be used to borrow for other projects. While exact terms are still under negotiation, the grant element on these loans will not be lower than 30 percent.

Table 14. Kyrgyz Republic: Structural Benchmarks under the Extended Credit Facility for 2011 and 2012

Measure	Timing	Macroeconomic Rationale	Status
<b>Structural Benchmarks</b>			
<b>I. FISCAL POLICY</b>			
<b>Strengthen public financial management by:</b>			
Establishing a high-level committee for coordination of PFM reforms chaired by the Minister of Finance.	End-December, 2011	Strengthen the management of PFM reforms via proper prioritization, sequencing, and coordination of reform measures.	Met
Adopting a decree to extend treasury coverage to the remaining extra-budgetary funds, including the Social Fund.	End-March, 2012	Strengthen the reporting on general government finances.	Met
Developing and adopting a medium-term debt management strategy.	End-March, 2012	Strengthen macroeconomic management and ensure debt sustainability.	Met
Adopting an instruction for introducing, through TMIS, a commitment control system based on cash limits.	End-July, 2012	Strengthen the treasury's ability to check commitments against authorized limits, register commitments and enhance control and recording of cash spending requests.	In progress
Reforming the ministry of finance by revamping its organizational structure consistent with Fund TA advice.	End-September, 2012	Increase the efficiency of government and public financial management, in particular.	In progress
<b>II. FINANCIAL SECTOR</b>			
Based on the audit results, which found the bank to be solvent, resolve Zalkar Bank as follows:		Complete resolution of the AUB/Zalkar.	Not met. Proposed to replace with two new structural benchmarks.
a) Sell to a reputable bank, or	End-February, 2012		
b) If no acquirer is found, initiate disposal of assets and liabilities to interested investors.	End-February, 2012		
Submit to the Parliament a draft Banking Code (including Law on Banks and Banking Activity, Law on Conservatorship, Liquidation, and Bankruptcy of Banks, Law on NBKR) consistent with Fund TA advice, to (i) strengthen the legal framework for early intervention and resolution of problem banks; (ii) limit the scope of judicial review of actions taken by the NBKR; and (iii) enhance legal protection for NBKR staff and agents.	End-April, 2012	Strengthen bank resolution framework and supervisory independence of the NBKR. This will also ensure the supremacy of the NBKR law over other laws and regulations that might affect the NBKR	Proposed to rephrase to end-March 2013.
The Banking Code reform will also: (i) establish the NBKR's sole authority to hold and manage official foreign reserves, and (ii) extend the term of engagement of the NBKR external auditors.	End-April, 2012	Strengthen institutional and financial autonomy of the NBKR.	Proposed to rephrase to end-March 2013.
Develop a sales strategy for the SSC bank.	End-April, 2012	Reduce the government's involvement in the commercial banking activity.	Met

**ATTACHMENT I. LETTER OF INTENT**

April 12, 2012

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

Dear Ms. Lagarde:

The first review of our economic and financial program, supported by an arrangement under the Extended Credit Facility (ECF), was completed by the IMF Executive Board on December 7, 2011. We are grateful to the IMF for its continued support of our economic reform program.

The ECF continues to play a pivotal role in our efforts to restore and maintain macroeconomic stability and promote inclusive growth in a low inflation environment after the deep political crisis in 2010. Its successful implementation is also instrumental in helping to catalyze donor assistance to fulfill our social commitments and to continue implementation of much-needed structural reforms. Peaceful presidential elections and the formation of a new coalition government in December 2011 have set the stage for continued political stability and strengthened security, enabling us to accelerate our economic reforms.

The economy has rebounded strongly, growing by 5.7 percent in 2011. Growth was broad-based and supported by political stability, improved security and buoyant activity in major economic partners. Consumer price inflation has declined rapidly to 5.7 percent at end-2011 compared to over 22 percent at end-June 2011.

The program remains on track. All end-December 2011 quantitative performance criteria and the majority of the applicable structural benchmarks were met. Structural reforms are being implemented in line with our commitments in the Letter of Intent (LOI) and the Memorandum of Economic and Financial Policies (MEFP) dated June 2, 2011 and the LOI dated November 17, 2011. We have established a high-level committee for coordination of Public Financial Management (PFM) reforms chaired by the minister of finance, which meets on a regular basis. A decree to extend treasury coverage to the remaining extra-budgetary funds, including the Social Fund, was adopted. We have also developed and adopted a medium-term debt management strategy, which will strengthen macroeconomic management and safeguard debt-sustainability. We have developed a sales strategy for the Savings and Settlement Company (SSC) bank. Regrettably, our efforts to sell Zalkar Bank

through four competitive auctions did not succeed. We strongly believe that the sale of Zalkar as a whole would be more efficient than a piecemeal liquidation and therefore we ask that this benchmark be replaced with two new benchmarks that will increase the chances of successful privatization of Zalkar. We have also taken decisive steps toward strengthening the legal frameworks for banking supervision, bank resolution, microfinance, central banking, and payments systems oversight. A first draft of the Banking Code has been completed, but to successfully finalize the Banking Code more time and further international assistance is needed. We therefore ask to delay this structural benchmark to end-March 2013.

In view of our achievements and continued commitment to the program, we are requesting the completion of the second review under the ECF-supported program and the third disbursement in the amount of SDR 9.514 million (about US\$15 million). We also request that the third and fourth disbursements under the ECF arrangement be channeled to the budget. Furthermore, we request the modification of end-June 2012 performance criteria to reflect the changed macroeconomic outlook, lower external financing and higher-than-expected project costs of the foreign-financed energy infrastructure project. The government believes that the economic and financial policies set forth in our LOI and MEFP of June 2, 2011, LOI of November 17, 2011, supplemented with this LOI and modified quantitative performance criteria and updated structural benchmarks (see Tables 1 and 2, respectively) are sufficient to meet the objectives of the program. We stand ready to take additional measures as needed and will consult with Fund staff on such measures and in advance of revisions to the policies contained in the MEFP, November 17, 2011 LOI and updated LOI, in accordance with the Fund's policies.

Consistent with our commitment to transparency, we agree to publish this letter and other ECF-related documents circulated to the IMF Executive Board on the IMF web site.

## **I. POLICIES FOR 2012 AND BEYOND**

**1. The policies and commitments set out in the LOI and MEFP dated June 2, 2011 and the LOI of November 17, 2011, remain valid and are updated with this LOI.**

**2. Continued macroeconomic stability remains the cornerstone of our Fund-supported program.** In particular:

- Projecting economic growth in the present highly uncertain environment is difficult. We are aiming at real GDP growth of 7.5 percent in 2012 but maintain the conservative assumption for the purpose of the program of 5 percent and 5½ percent on average during 2013–14.
- Continuation of tight monetary policy should help to keep underlying inflationary pressures contained. Barring exogenous price shocks, headline inflation is projected at 8–8½ percent in 2012 and about 7–7½ percent during 2013–14. The general

government fiscal deficit, excluding foreign-financed energy investment projects, will increase slightly to 4.6 percent of GDP. In line with the program objective of fiscal consolidation it will decline to 2.6 percent of GDP by 2014.

- The current account deficit is expected to widen from 3.1 percent of GDP in 2011 to 4.8 percent in 2012 due to the slowdown in growth of nongold exports and remittances, while continued high oil prices and purchases of equipment related to the energy infrastructure project and investments by the major gold-mining company are expected to keep imports high.

3. **We have finalized the Medium Term Development Program (MTDP/PRSP) with the assistance of our development partners.** In line with our commitments (see the LOI of November 17, 2011 ¶3) the strategy will be circulated to the Fund's Executive Board with the documents for the second review under the program. The main goal of the reforms under the MTDP/PRSP is to improve the population's living standards and reduce poverty through economic growth, improvements in the business environment, and building an effective governance system. The MTDP/PRSP is consistent with our ECF-supported program commitments, including (i) fiscal consolidation, (ii) strengthening public financial management, (iii) safeguarding debt sustainability, and (iv) improving the business environment.

#### A. Fiscal policy

4. **Medium-term fiscal consolidation remains a critical element of our program while preserving priority social expenditures.**

- Tax policy and administration measures introduced in 2011 and 2012 and continued improvements in compliance will help increase tax revenue collection by about 1 percent of GDP. Moreover, the new reporting requirements for the ten largest state-owned enterprises (SOEs) adopted under the program have helped to better assess the financial condition of these SOEs and are expected to considerably increase dividend receipts in the budget (by about 40 percent).
- We will ensure that any tax policy initiative that leads to lower tax rates or a narrower tax base is accompanied by offsetting revenue measures. We plan to return the tax policy function to the ministry of finance.
- In line with our commitment (see MEFP ¶13) we will exercise nominal wage restraint for public sector employees in 2012. We have started to reduce the size of civil service by about 15 percent in 2012, which will free up about 0.3 percent of GDP of budgetary resources. In addition to the legally required severance payments, we will develop a program of retraining and employment for civil servants to mitigate the adverse social impact of the downsizing. Furthermore, about 700 service vehicles will be sold through auctions and the proceeds transferred to the budget.

- We plan to raise pensions further in two steps by a cumulative 16 percent to bring the average pension closer to the minimum subsistence level. The full year impact from the pension and wage increases introduced in mid-2011 will lead to higher social fund and payroll spending, while critical developmental needs, including the ongoing energy infrastructure project, will increase capital expenditures.
- As a result, the overall 2012 fiscal balance, excluding energy infrastructure projects, is projected at 4.6 percent of GDP. This deficit target is higher than the 2011 outcome, but lower than the original target under the program and is thereby in line with our goal of medium-term fiscal consolidation.

5. **We plan to address any shortfalls in revenues or financing with contingency measures.** If needed, we will cut nonpriority spending while preserving outlays on protected items such as pensions and salaries. We will not include financing from the Eurasian Economic Council (EURASEC) Anti Crisis Fund (ACF) (US\$106.7 million, 1.8 percent of GDP) in our financing plans this year because of continued uncertainties. Should ACF financing become available, we commit to limit the increase in the deficit to no more than 0.5 percent of GDP (30 percent of the disbursed amount) this year.

6. **We intend to further develop the domestic debt market to diversify financing.** We acknowledge that transforming the government securities market into a deep and liquid market will take time. We will therefore prepare and adopt a domestic debt market development action plan, although more technical assistance may be needed. Meanwhile, to improve primary placement arrangements and broaden participation we plan to pilot the issuance of three-month treasury bills and two-year bonds at the Kyrgyz Stock Exchange. We will discontinue direct sales of government securities by the Ministry of Finance and ensure that the sales take place only at organized auctions. To ensure transparency and accountability, we will exclusively use the unified depository for government securities at the NBKR.

7. **We recognize the need to advance the PFM reform agenda.** Consistent with our commitment (see the LOI dated November 17, 2011, ¶7), we asked our development partners to carry out a review of our public procurement system to identify and recommend actions to strengthen it. With the help from the World Bank and Asian Development Bank we are implementing a program to revamp public procurement system, which we expect to generate considerable fiscal savings. We will also implement PFM reforms in line with the Fund technical assistance (structural benchmark) recommendations and the assistance from the PFM donor trust fund.

8. **Implementation of foreign-financed energy infrastructure projects is critical to ensure the country's energy security.** To accommodate an increase in the projects' estimated costs as a result of higher input prices and the addition of new transformers, we are requesting an increase in the ceiling on the contracting or guaranteeing of new

nonconcessional external debt by US\$150 million. We consider this a precaution and will make every effort to ensure that the financing of these projects is contracted on concessional terms, as the first phase of the project, and are committed to maintaining lower external debt vulnerabilities.

## **B. Monetary, exchange rate, and financial sector policies**

9. **The primary objective of monetary policy in 2012 will be to keep inflation in single digits.** The NBKR will maintain a tight monetary policy stance to further counter underlying inflationary pressures. We will continue to rely on open market operations to manage liquidity and maintain a positive real policy interest rate. We will ensure close coordination between the fiscal and monetary authorities and continue to intervene in the foreign exchange market only to smooth excessive volatility. Expected technical assistance from the Fund should help to strengthen the NBKR foreign exchange reserves management capacity.

10. **We will continue to strengthen banking supervision and reduce existing vulnerabilities.**

- The NBKR has recently reorganized the banking supervision function to improve its overall effectiveness. On-site and off-site divisions that have expanded considerably over the past several years were elevated to departments. The NBKR is benefiting from ongoing IMF technical assistance in banking supervision.
- The NBKR will continue to closely monitor the systemically important state-owned SSC bank to ensure that its pace of expansion remains measured so as not to jeopardize its soundness. The capital injection by the government last year allowed the bank to sustain government supported programs and we may provide an additional 250 million soms for the same purpose. The government has prepared a sales strategy for SSC (end-April 2012 structural benchmark).
- The NBKR's work to resolve the four banks under conservatorship is ongoing. One bank is expected to be removed from conservatorship by the end of this year. Progress in resolving the remaining banks continues to be limited due to pending litigation cases. A resolution of the assets nationalized in the aftermath of the 2010 events that were taken as collateral for loans extended by domestic banks would greatly help in this regard.
- The work on the draft Banking Code provides an opportunity to comprehensively review the legal frameworks for banking supervision, bank resolution, microfinance, central banking, and payments systems oversight and align them with international best practice. Given the scope of the project, more time is needed for the NBKR to prepare a draft for Fund staff (end-April 2012, structural benchmark), for the

government (end-December 2012, structural benchmark), and for the government to submit the draft to parliament (end-March 2013). The IMF resident legal advisor for the NBKR will be instrumental in this regard.

11. **Our attempts to privatize Zalkar bank were not successful.** The Agency on Banks Reorganization and Debt Restructuring (DEBRA) did not receive any bids at four auctions that took place between November 2011 and January 2012. While the next step of the resolution plan agreed with the IMF stipulates the disposal of assets and liabilities of the bank, we believe that selling the bank as a going concern is a better option. To improve the process we have asked the World Bank to assist us in selling the bank. The World Bank's international experience in this area should considerably enhance our chances to sell Zalkar to a reputable bank through a transparent and competitive process. To this end, DEBRA has signed an agreement with the IFC as the external transaction advisor. By end-June 2012, the valuation of Zalkar bank will be completed and we will disseminate the prospectus with the help of our transaction advisor (structural benchmark). We expect the sale to be completed by end-December 2012 (structural benchmark).

12. **We are preparing an action plan to strengthen the AML/CFT regime with Fund assistance.** While the plan will encompass eight different areas, the Fund's TA will focus on reviewing the legal framework and assisting the State Financial Intelligence Service (SFIS) and other relevant agencies in reinforcing their functions and coordination. In line with Fund advice, we will submit to the parliament draft amendments to the AML/CFT law and to the relevant provisions of the Criminal Code to strengthen the AML/CFT legal framework. These provisions include the criminalization of money laundering and terrorist financing; identification, tracing, and freezing of terrorist assets; confiscation of funds related to money laundering; and customer due diligence measures for all financial institutions by end-September 2012 (structural benchmark).

### C. Structural policies

13. **The government attaches a high priority to establishing a business environment conducive to investment and private sector-led growth.** To reduce the burden on businesses, the quantity of licenses and permits has been reduced from 500 to 220 and the number of government entities with the authority to inspect businesses have been cut from 12 to 2. We have established the state service on fighting economic crimes and disbanded the financial police with the aim to concentrate the function of investigation of economic crimes in one body. We will eliminate duplication of inspections by state executive bodies and local governments, including regional state administrations. We have also analyzed the legislation and regulations governing private property and will take the necessary steps to strengthen protection of property rights. To address the growing complaints of investors in the mining sector, we will adopt a new law on mineral resources in cooperation with our development partners to ensure openness and transparency in the mining sector.

14. **We remain strongly committed to reform the public administration system and reduce bureaucracy.** The revamped government structure that entered into force in January 2012 reduced the number of ministries from 18 to 16 and the number of other government agencies from 22 to 19. The number of government services has been reduced significantly, which should improve the quality and efficiency of these services.

15. **We remain committed to good governance and transparency.** We are advancing our work to establish a State Development Bank (SDB) to support future growth including by developing affordable (i) mortgage lending; (ii) leasing for agriculture; and (iii) loans for farmers and entrepreneurs. In line with the LOI dated November 17, 2011 (¶9), we have been consulting with IMF staff and other development partners and will continue to do so over the coming months to ensure that the adopted law is in line with program objectives. We will also ensure that internal rules and regulations governing the SDB guarantee sound governance, transparency, and accountability of this financial institution and will consult with Fund staff and other development partners prior to approval of these documents. It is critical that all public resources channeled to the SDB are reflected in the budget.

#### **D. Program Monitoring**

16. **The ECF-supported program will continue to be monitored through quantitative performance criteria, indicative targets, and structural benchmarks.** Quantitative performance criteria and indicative targets for March 2012, June 2012, September 2012, December 2012, March 2013, and June 2013 and continuous performance criteria are set out in Table 1 and structural benchmarks are set out in Table 2. Program reviews will continue to be conducted semi-annually, based on end-June and end-December test dates. The third and fourth reviews are expected to take place on or after November 15, 2012, and on or after April 15, 2013, respectively. The understandings between the Kyrgyz authorities and IMF staff regarding the quantitative performance criteria and structural benchmarks described in this LOI and reporting requirements are further specified in the Technical Memorandum of Understanding (TMU) as updated in the attached.

Sincerely yours,

/s/

Omurbek Babanov  
Prime Minister of the Kyrgyz Republic

/s/  
Akylbek Japarov  
Minister of Finance of  
the Kyrgyz Republic

/s/  
Zina Asankojoeva  
Chairperson of the National Bank of  
the Kyrgyz Republic

Table 1. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, December 2011–June 2013  
(In millions of soms, unless otherwise indicated; eop)

	2011				2012				2013			
	December				March	June		September	December	March	June	
	QPC				IT	QPC		IT	QPC	IT	IT	
	CR/11/354	Adj.	Act.	Status	CR/11/354	CR/11/354	Revised					
<i>Quantitative performance criteria 1/</i>												
1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars)	1,694	1,586	1,638	Met	1,633	1,678	1,635	1,678	1,742	1,722	1,752	
2. Ceiling on net domestic assets of the NBKR (eop stock)	-12,384	-7,303	-14,080	Met	-11,868	-10,310	-10,368	-10,491	-9,325	-17,934	-15,415	
3. Ceiling on cumulative overall cash deficit of the general government 2/	21,588	16,754	13,117	Met	477	6,502	7,213	12,703	18,145	1,320	7,551	
4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/	250	250	0	Met	250	250	400	400	400	400	400	
5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	Met	0	0	0	0	0	0	0	
<i>Indicative Targets 1/</i>												
1. Ceiling on reserve money	59,116	59,116	54,803	Met	56,772	60,453	58,339	60,222	64,406	63,159	67,090	
2. Cumulative floor on state government tax collections 2/	50,823	50,823	53,017	Met	12,611	26,861	26,069	42,874	62,573	13,261	29,065	
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit (UMB) and Monthly Social Benefit (MSB) programs 2/	2,800	2,800	2,815	Met	722	1,444	1,444	2,166	2,888	744	1,487	

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

1/ As defined in the TMU.

2/ Cumulative from the beginning of the year.

3/ External debt contracted or guaranteed with a grant element less than 35 percent. The limit is cumulative from end-December 2010 and tied to energy infrastructure projects only. Should the total borrowings for these projects be less than US\$400 million, the remaining space cannot be used to borrow for other projects. While exact terms are still under negotiation, the grant element on these loans will not be lower than 30 percent.

Table 2. Kyrgyz Republic: Prior Action and Structural Benchmarks under the Extended Credit Facility for 2012–13

Measure	Timing	Macroeconomic Rationale
<b>Structural Benchmarks</b>		
<b>I. FISCAL POLICY</b>		
<b>Strengthen public financial management by:</b>		
Adopting an instruction for introducing, through TMIS, a commitment control system based on cash limits.	End-July, 2012	Strengthen the treasury's ability to check commitments against authorized limits, register commitments and enhance control and recording of cash spending requests.
Reforming the ministry of finance by revamping its organizational structure consistent with Fund TA advice.	End-September, 2012	Increase the efficiency of government and public financial management, in particular.
<b>II. FINANCIAL SECTOR</b>		
Disseminate Zalkar prospectus and complete its valuation.	End-June, 2012	Complete resolution of Zalkar Bank.
Complete Zalkar sale.	End-December, 2012	Complete resolution of Zalkar Bank.
Submit the draft Banking Code (including Law on Banks and Banking Activity, Law on Conservatorship, Liquidation, and Bankruptcy of Banks, Law on NBKR) consistent with Fund TA advice, to (i) strengthen the legal framework for early intervention and resolution of problem banks; (ii) limit the scope of judicial review of actions taken by the NBKR; and (iii) enhance legal protection for NBKR staff and agents. The Banking Code reform will also: (i) establish the NBKR's sole authority to hold and manage official foreign reserves, and (ii) extend the term of engagement of the NBKR external auditors.		Strengthen bank resolution framework and supervisory independence of the NBKR. This will also ensure the supremacy of the NBKR law over other laws and regulations that might affect the NBKR;
(i) to Fund staff	End-April, 2012	Strengthen institutional and financial autonomy of the NBKR.
(ii) to government	End-December, 2012	
(iii) to parliament	End-March, 2013	
In line with the Fund's TA advice, submit to the Parliament draft amendments to the AML/CFT law and to the relevant provisions of the Criminal Code to strengthen the AML/CFT legal framework. These provisions include the criminalization of money laundering and terrorist financing; identification, tracing and freezing of terrorist assets; confiscation of funds related to money laundering; and customer due diligence measures for all financial institutions	End-September, 2012	Bring the AML/CFT legislation in line with the Financial Action Task Force standard.

## ATTACHMENT II. KYRGYZ REPUBLIC: REVISED TECHNICAL MEMORANDUM OF UNDERSTANDING

April 12, 2012

### I. INTRODUCTION

1. This memorandum defines the quantitative performance criteria, indicative targets and adjusters, and establishes the content and frequency of the data to be provided to IMF staff for program monitoring related to the economic program supported by an arrangement under the Extended Credit Facility (ECF). The indicators presented in Table 1 of the Letter of Intent dated April 12, 2012 reflect the understandings on quantitative performance criteria reached between the authorities of the Kyrgyz Republic and staff of the IMF.

### II. QUANTITATIVE PERFORMANCE CRITERIA

#### A. Definitions and concepts

2. **Test dates.** Quantitative performance criteria are set semi-annually starting June 30, 2011 through June 30, 2013, and are to be met at the end of each period.
3. **National Bank of the Kyrgyz Republic (NBKR).** The NBKR is the central bank of the country and is responsible for the formulation and implementation of monetary policy, bank supervision, and the payment system. For the purpose of the program, the NBKR includes all its central and regional offices.
4. **Public sector.** For the purpose of the program, the public sector comprises the general government, the NBKR, the ten largest nonfinancial public enterprises (enterprises and agencies in which the government owns more than 50 percent of the shares, but which are not consolidated in the budget, as listed in Table 1), and any other newly created public development institution. The State budget comprises central and local government budgets. The general government budget includes the State and Social Fund budgets.
5. **Foreign-financed Public Investment Program (PIP) loans and grants.** The foreign financed PIP is a program of investments in infrastructure and social sectors agreed by the general government of the Kyrgyz Republic and its donors (including but not limited to international financial organizations). The PIP is fully financed by related grants and loans.
6. **Program loans and grants** are loans and grants received by the general government for direct budget support from external donors and not related to PIP financing.
7. The stock of **external payment arrears** for program monitoring purposes is defined as the end-of-period amount of external debt service due and not paid within the grace period specified in the relevant debt contract, including contractual and late interest. For arrears to

exist, a creditor must claim payment of amounts due and not paid. Amounts in dispute are not considered arrears. Arrears for which a clearance framework/rescheduling or restructuring has been agreed with the creditor are not considered arrears for program monitoring purposes. Program arrears would include any debt service due under such agreements that has not been paid.

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

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

## **B. Quantitative performance criteria**

### **Floor on net international reserves of the NBKR in convertible currencies<sup>1</sup>**

#### ***Definitions***

10. **Net international reserves (NIR) of the NBKR.** The floor on NIR will be calculated as the difference between total international reserve assets and total international reserve liabilities of the NBKR in convertible currencies. Total international reserve assets of the

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<sup>1</sup> Convertible currencies are defined as currencies that are freely usable for settlements of international transactions.

NBKR are defined as the NBKR holdings of monetary gold, holdings of SDRs, reserve position in the IMF, and any holdings of convertible foreign currencies in cash or with foreign banks, and debt instruments issued by nonresidents that are liquid. Accrued interest on deposits, loans, and debt securities are included in reserve assets and liabilities, correspondingly. Reserve assets pledged as collateral or otherwise encumbered, capital subscriptions in foreign financial institutions, and illiquid assets of the NBKR are excluded. Also excluded are net forward positions, defined as the difference between the face value of foreign-currency denominated NBKR off-balance sheet claims on nonresidents and foreign currency obligations to both residents and nonresidents. Total international reserve liabilities of the NBKR in convertible currencies are defined as the sum of Kyrgyz Republic's outstanding liabilities to the IMF and other convertible currency liabilities to nonresidents with an original maturity of up to and including one year. NIR is not affected when foreign assets are received by the NBKR through foreign currency swaps with resident financial institutions. Total international reserves and NIR decline with the provision of foreign assets by the NBKR through foreign currency swaps with resident financial institutions.<sup>2</sup> For program monitoring purposes, total international reserve assets and liabilities will be valued at the program exchange rates as described in paragraph 9. Thus calculated, the stock of net international reserves in convertible currencies amounted to US\$1,638 million on December 31, 2011.

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

### *Adjustors*

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

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

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

### ***Definitions***

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

14. Thus defined, NDA consist of: (a) gross credit to the general government from the NBKR, minus deposits of the general government with the NBKR; (b) gross credit to domestic banks by the NBKR; (c) net claims on other financial corporations; and (d) all other net assets of the NBKR (other items net). Thus defined, the stock of NDA amounted to minus KGS 14,080 million on December 31, 2011.

### ***Adjustors***

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

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

### ***Definitions***

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

- a) the change in the stock of net claims of the domestic banking system and nonfinancial institutions and households on the general government. The change in the stock of net claims of the domestic banking system on the general government is defined as the change in the stock of the banking system claims on the general government, less the change in the stock of all deposits of the general government with the banking system. The claims of the banking system on the general government include: bank loans to the general government; any securities issued by the general government and held by domestic banks, with the exception of those issued in relation with bank rescue operations; and overdrafts on the current accounts of the general government with banks;
- b) the change in the stock of net claims of foreign governments, banking systems, and nonfinancial institutions and households on the general government;
- c) net privatization receipts, i.e. any new sales net of purchases of shares;
- d) net foreign loans disbursed to the general government for budgetary support; and

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

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

### *Adjustors*

18. The ceiling on the cumulative overall cash deficit of the general government will be adjusted downward to the full extent of any excess in program grants, as given in Table 3. The ceiling on the cumulative overall cash deficit of the general government will be adjusted downward to the full extent of any shortfall in program loans, as given in Table 3 and upward by 30 percent of a disbursed ACF budget support loan. The ceiling on the cumulative overall cash deficit of the general government will be adjusted upward/downward to the full extent that PIP loans are more/less than PIP loans given in Table 3.

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

### *Definitions*

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

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

- ii. suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and
  - iii. leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.
- b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.
20. For program purposes, external debt is defined based on the residency of the creditor.
21. **External debt ceilings** apply to the contracting or guaranteeing by the public sector (as defined in section II. A., paragraph 4) of nonconcessional external debt, i.e. external debt with grant element of less than 35 percent (see section II. A., paragraph 7), except normal short-term import-related credits and NBKR international reserve liabilities. The current nonzero ceiling (US\$400 million) is tied to infrastructure projects in the energy sector. Should the total borrowings for these projects be less than US\$400 million, the remaining space cannot be used to borrow for other projects. The grant element on these loans will not be lower than 30 percent.
22. **Exclusions from the external debt limits.** Disbursements by the IMF are excluded from the ceilings on external debt. Also excluded from external debt ceilings is the contracting or guaranteeing of new external debt that constitutes a rescheduling or refinancing of existing external debt on the terms more favorable to the debtor.
23. **Guarantees.** For program purposes, the guarantee of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or from any implicit legal or contractual obligation of the public sector to finance partially or in full a shortfall incurred by the debtor.
24. **New external payments arrears.** The ceiling on accumulation of new external payments arrears is a continuous quantitative performance criterion.

### C. Indicative targets

#### Ceiling on reserve money

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

#### Cumulative floor on state government tax collections

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

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

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

### III. REPORTING REQUIREMENTS UNDER THE ARRANGEMENT

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

#### A. The balance sheet of the NBKR

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

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<sup>3</sup> Any correction or revisions to data previously reported should be clearly indicated and documented along with the reasons for the revision.

## **B. Monetary survey**

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

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

## **C. International reserves and key financial indicators**

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

## **D. External debt**

33. The ministry of finance, together with the NBKR, will provide monthly information on the disbursements, principal and interest payment—both actual and falling due—on contracting and guaranteeing of medium- and long-term external loans by the state government, nonfinancial public enterprises, and the NBKR; and any stock of outstanding

arrears on external debt service payments within 21 days of the end of each month. In addition, the ministry of finance will report the total amount of outstanding government guarantees and external arrears on a monthly basis. While the NBKR will provide the debt service payment data on private debt, the ministry of finance will provide data on debt service on public and publicly guaranteed loans.

#### **E. Budgetary and extra budgetary data**

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

#### **F. Balance of payments data**

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

#### **G. Other general economic information**

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

Table 1. Kyrgyz Republic: Ten largest SOEs

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

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

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

Table 3. Kyrgyz Republic: Projected Budget Support, PIP, and Amortization  
(In millions of U.S. dollars)

	2012 1/			2013 1/	
	June	September	December	March	June
Program grants	35.0	37.6	70.0	10.5	24.5
Program loans	0.0	0.0	32.6	4.9	11.4
Public investment program loans	91.1	77.7	119.5	17.9	41.8
Amortization of public external debt	21.3	28.7	43.1	6.5	15.1
Interest payments	20.6	34.1	39.6	5.9	13.8

1/ Cumulative disbursements since the beginning of the year.

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

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

INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

**Second Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for Modification of Performance Criteria—Informational Annex**

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

April 12, 2012

	Contents	Page
I.	Relations with the Fund .....	2
II.	Relations with the World Bank Group.....	5
III.	Relations with the Asian Development Bank .....	10
IV.	Relations with the European Bank for Reconstruction and Development (EBRD) .....	12
V.	Technical Assistance Provided by the Fund .....	16
VI.	Statistical Issues .....	21

**ANNEX I. KYRGYZ REPUBLIC—RELATIONS WITH THE FUND**  
(As of February 29, 2012)

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

<b>II. General Resources Account</b>	<b>SDR Million</b>	<b>Percent of Quota</b>
Quota	88.80	100.00
Fund Holdings of Currency	88.80	100.00
Reserve Position	0.00	0.01

<b>III. SDR Department</b>	<b>SDR Million</b>	<b>Percent of Allocation</b>
Net cumulative allocation	84.74	100.00
Holdings	111.29	131.33

<b>IV. Outstanding Purchases and Loans</b>	<b>SDR Million</b>	<b>Percent of Quota</b>
ESF Arrangements	33.30	37.50
RCF Loans	22.20	25.00
ECF Arrangements	58.88	66.31

**V. Latest Financial Arrangements**

<b>Type</b>	<b>Approval Date</b>	<b>Expiration Date</b>	<b>Amount Approved (SDR Million)</b>	<b>Amount Drawn (SDR Million)</b>
ECF	06/20/2011	06/19/2014	66.60	19.03
ESF	12/10/2008	06/09/2010	66.60	33.30
ECF 1/	03/15/2005	05/31/2008	17.76	17.76

1/ Formerly PRGF.

**VI. Projected Payments to Fund 2/**

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

	Forthcoming				
	2012	2013	2014	2015	2016
Principal	9.44	11.36	13.33	11.04	14.97
Charges/Interest	0.00	0.08	0.22	0.19	0.16
Total	9.44	11.44	13.55	11.23	15.13

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

## **VII. Status of HIPC and MDRI Assistance**

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

## **VIII. Safeguards Assessments**

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

## **IX. Exchange Rate Arrangements**

The currency of the Kyrgyz Republic has been the som (100 tyiyn = 1 som) since May 15, 1993. The *de jure* exchange rate arrangement is floating arrangement. The NBKR participates and intervenes in the interbank foreign exchange market to limit exchange rate volatility as necessary. The *de-facto* exchange rate arrangement is classified as other managed arrangement. The NBKR publishes daily the exchange rate of the som in terms of the U.S. dollar, which is determined in the interbank foreign exchange market. The official exchange rate of the som against the dollar is calculated as the daily weighted average of the exchange rates used in the purchase and sale transactions of dollars conducted in the foreign exchange market through the Trade Information Electronic System (TIES) of the NBKR for the reporting period from 3.00 pm of the previous trading day to 3.00 pm of the current trading day. The government uses the official exchange rate for budget and tax accounting purposes as well as for all payments between the government and enterprises and other legal entities. The Kyrgyz Republic maintains a multiple currency practice (MCP), which predates the arrangement, arising from the use of the official exchange rate for government transactions. The official rate may differ by more than 2 percent from market rates because it is based on the average transaction weighted rate of the preceding day. In practice, the official and market rates have never differed by more than 2 percent. Staff does not recommend approval of this MCP.

The Kyrgyz Republic maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions, except for the MCP

discussed above and exchange restrictions maintained for security reasons relating to the restriction of financial transactions and the freeze of accounts of certain individuals or organizations associated with terrorism pursuant to (i) relevant UN Security Council resolutions, and (ii) the list of current terrorist organizations designated by the U.S. Secretary of State. The authorities have notified these measures to the Fund in May 2007.

#### **X. Article IV Consultations**

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

#### **XI. FSAP Participation and ROSC Assessment**

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

#### **XII. Resident Representative**

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

**ANNEX II. KYRGYZ REPUBLIC—RELATIONS WITH THE WORLD BANK GROUP**  
(As of March 23, 2012)

**World Bank Group Strategy:** The Kyrgyz Republic Interim Strategy Note (ISN) for FY 12–13 was discussed by the Board in August 2011. The ISN focuses on the country’s recovery and stabilization needs, while paving the way for support for long-term development. The need for an interim strategy approach was underscored by the fragile political, social and economic situation in the country and the absence of a medium-term development framework upon which a full IDA strategy could be based. The ISN is built around the ongoing program of the elected government, and focuses on governance and the restoration of economic and social stability.

**IDA allocation:** The IDA-16 initial annual allocation for the Kyrgyz Republic is US\$60 million on a 45 percent grant and 55 percent credit basis.

**IDA Portfolio:** The active portfolio consists of 18 IDA financed investment projects, totaling US\$364.4 million out of which US\$198.3 million has been disbursed.

**Recently approved operations:** In FY12 as of March 2012, the Bank has delivered 3 operations totaling US\$58.8 million out of which:

- In early FY12 Economic Recovery Support Operation (ERSO) was approved by the Board. The ERSO (US\$30 million), a budget support operation, supports the Government’s efforts to strengthen public sector governance, and address urgent social and reconstruction needs and restore private sector confidence, all critical to put the country back on track to recovery, growth and poverty reduction.
- AF for Bishkek-Osh Urban Infrastructure (US\$15.8 million) was approved by the Board on January 12, 2012 and Financial Sector Development Project (US\$13 million) was approved by the Board on March 8, 2012.

**Pipeline projects:** In FY13 the Bank expects to deliver one Development Policy Operation (DPO) and two investment projects, all currently under preparation. The investment operations (Education SWAp/Sector Support Program and Kyrgyz Second Health and Social Protection Project) to be delivered to the Board in September 2012 and December 2012 respectively.

**Trust Funds (TF):** In addition to IDA funds, the Bank manages a significant number of co-financing and stand-alone Trust Funds. As of December 2011, the TF Portfolio had a total value of US\$59.27 million including 25 Bank Executed TFs and 12 Recipient Executed TFs, out of which US\$39.87 million has been disbursed. The FTI-2, PFM, EU Food Crisis Rapid Response Facility, and co-financing grants for VIP-2, WMIP, and ABMP are the largest grants totaling USD 46 million.

**AAA Program:** The ongoing AAA program includes a Public Expenditure Review, Kyrgyzstan Conflict Analysis Filter, Gender Assessment, Preparation of a New Statistical Master Plan (SMP-2) and Information Matters - Transparency and Accountability GPF grant.

### **IFC Program and Portfolio**

1. The International Finance Corporation (IFC) continues to contribute to sustainable private sector development with long-term financing and advisory services to local financial institutions, and direct financing to small enterprises for the expansion and modernization of their operations. **The engagement of IFC has accelerated in the period of 2009-2011, and these efforts have been complimentary to WB efforts in private sector development and development of the financial sector.** IFC will continue focusing on private sector development and aiming to increase its investments with a particular focus on the banking, manufacturing, mining, and agribusiness sectors. In addition, IFC is planning to participate in financing investment programs of privatized entities if privatization is undertaken in an open and transparent manner and in line with international best practice. In infrastructure, IFC is exploring opportunities, primarily on a sub national basis, in power transmission, hydropower plants, and municipal utilities. In addition, an IFC PPP Advisory program is being implemented in the Central Asia region and IFC is seeking to engage with the Kyrgyz government to assist with privatizations and concessions.

2. IFC Strategy and Program:

- **Increase access to finance for MSMEs** by strengthening local financial institutions and providing credit lines for MSME financing to local banks and expanding microfinance institutions.
- **Develop institutional capacity** and support capacity building of financial institutions (including leasing and insurance, if there are opportunities) and microfinance companies and **improve corporate governance** in local enterprises.
- Increase private sector participation in **infrastructure** through selective advisory and investment climate engagement.
- Assist the **agribusiness** sector directly and through MSMEs finance to banks and microfinance companies.
- Support the improvement of **business environment and investment climate**.

Since becoming a member of IFC in 1993, the Kyrgyz Republic has received commitments totaling more than US\$110 million from IFC's own funds to finance more than 30 projects in the financial, banking and microfinance, oil, gas and mining sector, agribusiness, pulp, and paper sectors. **New commitments in 2011 amounted to US\$9.8 million for investments in four projects representing banking, microfinance, and real sectors.** As of February 1, 2012, IFC's committed portfolio was US\$32.24 million, which includes investments in seven companies, representing banking, microfinance, and real sector companies.

3. IFC will continue its advisory services work in the financial sector, developing corporate governance and improving the business environment. The Azerbaijan-Central Asia Financial Infrastructure Project is planning to continue its work on the Code of Conduct, strengthen the institutional capacity of the private credit bureau, and possibly work on the special law on credit bureaus. The Investment Climate project continues working with the government on ensuring higher transparency standards by helping to develop the new Law on Inspections which was approved in 2011 and working with inspectorates on introducing risk-based criteria for inspections and using checklists during inspections. In order to address the revenue transparency and financial disclosure challenge in the Kyrgyz Republic, a new Project on Regulatory Reform and Tax Transparency has been launched in 2011 to identify the main policy constraints, root causes of low formalization, poor tax compliance by real sector companies, and define a set of actionable policy options to increase compliance and formalization. The project is expected to complement the efforts of IFC's Investment Climate work and facilitate an increase in IFC investments in the real sectors of the economy.

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

5. MIGA's current portfolio in the Kyrgyz Republic consists of guarantees for two projects in the transport sector: an airline (Kyrgyz Airlines) and an airport services company (Manas Management Company). The projects are owned by Austrian and Italian investors. The combined gross exposure from these projects is US\$14.8 million. Both of these projects were the subject of disputes between the investors and the Government during the last four years. The settlement between the Kyrgyz Government and investors, which was worked out in May of 2008 with MIGA's mediating role, has now been fully implemented by both sides. This finally resolves this matter that had been pending for more than four years. In August 2009 MIGA's guarantee holders withdrew their claim against MIGA and released MIGA from any liability. In addition, they have dismissed their claims against the government, which had been pending in the London Court of International Arbitration. There were no new MIGA projects in the Kyrgyz Republic in FY11.

**Table 1. Kyrgyz Republic Active Project Portfolio**  
 (As of March 2012)  
 (In millions, USD Equivalent)

	<b>Comm Amt</b>	<b>Tot Undisb Bal</b>	<b>Tot Disb</b>
<b>Agribusiness &amp; Marketing Project</b>	8.1	1.6	6.9
<b>Water Management Improvement Project (WMIP)</b>	19.0	7.2	13.2
<b>Second On-farm Irrigation Project</b>	31.0	19.5	11.3
<b>Agricultural Investments and Services Project</b>	13.0	0.2	12.5
<b>Second Land and Real Estate Registration Project</b>	5.9	1.6	4.0
<b>Emergency Energy Assistance</b>	15.0	0.8	13.9
<b>Disaster Hazard Mitigation Project</b>	7.9	2.2	6.1
<b>Capacity Building for Economic Management Grant</b>	3.0	2.0	1.0
<b>Emergency Recovery Project</b>	70.0	25.4	46.9
<b>Payments &amp; Banking System Modernization Project</b>	9.0	3.0	6.3
<b>Reducing Technical Barriers for Entrepreneurship and Trade</b>	5.0	3.0	2.5
<b>KG Financial Sector Development Project</b>	13.0	13.3	0.0
<b>Health &amp; Social Protection Project</b>	45.0	24.8	20.9
<b>Governance Technical Assistance Project</b>	7.8	2.9	6.0
<b>Second Village Investment Project</b>	23.0	1.0	23.1
<b>National Road Rehabilitation (Osh-Batken-Isfana)</b>	51.0	38.2	12.5
<b>Bishkek and Osh Urban Infrastructure Project</b>	27.8	18.1	9.0
<b>Second Rural Water Supply &amp; Sanitation</b>	10.0	8.3	2.4
	<b>364.4</b>	<b>173.1</b>	<b>198.3</b>

**Table 2. Kyrgyz Republic Active Trust Fund Portfolio**  
(As of December 2011)

Grant Type	Fund Status	Fund	Fund Name	Fund TTL Name	Donor Name	Program	Closing Date	Grant Amount USD	Disbursements USD
BEA	ACTV	TF010423	Kyrgyz Republic HRITF Impact Evaluation	Tamer Samah Rabie	Multi Donor	HRBF	12/30/2015	1,000,000.00	2,026.53
BEA	ACTV	TF091286	KYRGYZSTAN: NBF1 CAPACITY BUILDING	Brett E. Coleman	Multi Donor	FIRST	10/31/2011	450,100.00	362,948.11
BEA	ACTV	TF091980	KYRGYZ (EFA FTI EPDF-ECA): CAPACITY DEVELOPMENT	Dingyong Hou	Multi Donor	FTIE	8/31/2012	120,000.00	102,886.59
BEA	ACTV	TF091981	KYRGYZ (EFA FTI EPDF-ECA): MONITORING EVALUATION & KNOWLEDGE SHARING	Dingyong Hou	Multi Donor	FTIE	8/31/2012	324,000.00	221,555.82
BEA	ACTV	TF091982	KYRGYZ (EFA FTI EPDF-ECA): STRENGTHEN PARTNERSHIPS	Dingyong Hou	Multi Donor	FTIE	8/31/2012	264,000.00	216,478.18
BEA	ACTV	TF092574	KRYGYZ EPDF -- EDUCATION SECTOR PLAN	Dingyong Hou	Multi Donor	FTIE	8/31/2012	80,000.00	67,871.32
BEA	ACTV	TF094144	W2-INFORMATION MATTERS - TRANSPARENCY AND ACCOUNTABILITY IN THE KYRGYZ REPUBLIC	Gregory Kisunko	Multi Donor	GPF	10/31/2013	793,000.00	441,719.10
BEA	ACTV	TF094665	READ FUNDING FOR THE KYRGYZ REPUBLIC	Dingyong Hou	Russian Federation	READ	6/30/2012	350,000.00	298,680.86
BEA	ACTV	TF094769	KYRGYZ REPUBLIC HRBF PILOT ACTIVITIES	Tamer Samah Rabie	Multi Donor	HRBF	9/30/2013	400,000.00	399,925.44
BEA	ACTV	TF095391	Forests and Rural Livelihood in the Kyrgyz Republic - Development Potentials	Sandra Broka	Multi Donor	PROFOR	11/30/2011	120,000.00	93,095.60
BEA	ACTV	TF096039	EU TF Food Security: Global Food Crisis Response	Peter Goodman	EC/EU	GFCRP	2/29/2012	320,032.59	278,350.65
BEA	ACTV	TF096491	Rapid Assistance to Improve Social Safety Nets in Kyrgyzstan in the Face of Energy Tariff Reforms	Nedim Jaganjac	United Kingdom	RSRC	2/29/2012	60,000.00	56,143.90
BEA	ACTV	TF096647	FIRST # 9002 Kyrgyz Republic: Deposit Protection Agency Capacity Building	Brett E. Coleman	Multi Donor	FIRST	6/30/2012	252,000.00	109,440.62
BEA	ACTV	TF097853	Kyrgyz Capacity Building PFM TF Supervision of Recipient Activities	K. Migara O. De Silva	Multi Donor	FS-7PE	6/30/2013	112,357.00	16,515.39
BEA	ACTV	TF098145	Kyrgyz Republic #9026 Corporate Financial Reporting	Andrei Busuioac	Multi Donor	FIRST	6/30/2012	209,600.00	96,945.62
BEA	ACTV	TF098284	Kyrgyz Republic Food Security Project	Sandra Broka	Russian Federation	GFCRP	4/30/2014	275,000.00	94,928.18
BEA	ACTV	TF098542	TF071472-Kyrgyz Re. DFID TA-CO TF for RWSSP-2 - Bank Executed	Pier Francesco Mantovani	United Kingdom	FS-7SD	4/30/2013	366,448.88	56,167.16
BEA	ACTV	TF098716	Kyrgyz Republic: Mining Sector TA Project	Gary Joseph Raymond McMahon	Multi Donor	ETAF	12/30/2012	300,000.00	142,537.72
BEA	ACTV	TF098717	Kyrgyz Republic: Mining Sector TA supervision	Gary Joseph Raymond McMahon	Multi Donor	ETAF	12/30/2012	54,000.00	33,453.50
BEA	ACTV	TF099115	Kyrgyz Republic Support to Vulnerable Remote Mining Communities	Gary Joseph Raymond McMahon	Japan	JSDF	1/31/2012	50,000.00	37,812.94
BEA	ACTV	TF099482	SPN Budget for Kyrgyz Fast Track Initiative Catalytic Trust Fund II	Dingyong Hou	Multi Donor	EFAFTI	8/31/2012	100,000.00	12,274.95
BEA	ACTV	TF099787	(BETF) Kyrgyz Republic Disaster Risk management (GFDRR: Track II TA Core)	Salman Anees	Multi Donor	GFDRR	6/30/2013	100,000.00	15,499.29
BEA	ACTV	TF099885	Kyrgyz Republic: Preparation of a New Statistical Master Plan	Gregory Kisunko	Multi Donor	TFSCB	6/30/2012	74,400.00	10,507.80
BEA	ACTV	TF099994	Enhancement of the Targeted Social Assistance Program to Allow Rapid Expansion, Improved Administration and Better Coverage/Protection of the Poor during Periods of Economic Volatility	Anastassia Alexandrova	Multi Donor	RSR	6/30/2012	260,000.00	59,581.96
BEU	ACTV	TF093895	MTDS	Eriko Togo	Multi Donor	DMF	12/31/2012	1,540,000.00	1,336,210.49
			<b>Subtotal</b>					<b>7,974,938.47</b>	<b>4,563,557.72</b>
REB	ACTV	TF053554	PHRD-KYRGYZ REPUBLIC: AGRIBUSINES AND MARKETING PROJECT	Sandra Broka	Japan	PHRD	6/30/2012	4,750,000.00	4,418,879.27
REB	ACTV	TF056324	PHRD-KYRGYZ REPUBLIC: WATER MANAGEMENT IMPROVEMENT PROJECT	Pieter David Meerbach	Japan	PHRD	12/31/2012	4,400,000.00	4,391,903.70
REB	ACTV	TF090072	SECOND VILLAGE INVESTMENT PROJECT IN THE KYRGYZ REPUBLIC	Keith W. McLean	United Kingdom	FS-7SD	6/30/2012	13,750,434.12	14,888,364.86
REB	ACTV	TF090641	PHRD-KYRGYZ REPUBLIC: REDUCING TECHNICAL BARRIERS FOR ENTREPRENEURSHIP AND TRADE	Sylvie K. Bossoutrot	Japan	PHRD	3/10/2012	299,600.00	221,003.85
REB	ACTV	TF097870	Additional Financing Swiss Grant for Co-financing of the Health and Social Protection Project	Nedim Jaganjac	Switzerland	FS-7HD	6/30/2011	1,122,876.00	1,122,852.50
REB	ACTV	TF098740	Additional Financing for the Health and Social Protection Project	Nedim Jaganjac	United Kingdom	FS-7HD	6/30/2011	1,441,046.13	1,495,960.48
REO	ACTV	TF090667	KYRGYZ REPUBLIC: IDF GRANT FOR CAPACITY BUILDING IN PUBLIC SECTOR AUDITING	John Otieno Ogallo	IBRD	IDF	12/5/2011	370,000.00	330,071.96
REO	ACTV	TF095989	IDF - Introduction of Quality Management Systems in the Roads Sector Project	Cordula Rastogi	IBRD	IDF	8/18/2013	480,000.00	
REP	ACTV	TF095472	Capacity Building in Public Financial Management	K. Migara O. De Silva	Multi Donor	FS-7PE	6/30/2013	7,491,433.00	1,519,580.30
REP	ACTV	TF096043	European Union Food Crisis Rapid Response Facility, Kyrgyz Agricultural Investments and Services Project	Peter Goodman	EC/EU	GFCRP	12/31/2011	9,746,446.91	4,182,086.05
REP	ACTV	TF098844	Kyrgyz Fast Track Initiative Catalytic Trust Fund II	Dingyong Hou	Multi Donor	EFAFTI	8/31/2012	6,000,000.00	2,735,261.92
REP	ACTV	TF099788	Disaster Risk Management Track II Project	Salman Anees	Multi Donor	GFDRR	6/28/2013	1,450,000.00	
			<b>Subtotal</b>					<b>51,301,836.16</b>	<b>35,305,964.89</b>
			<b>Total</b>					<b>59,276,774.63</b>	<b>39,869,522.61</b>

**ANNEX III. KYRGYZ REPUBLIC—RELATIONS WITH THE ASIAN DEVELOPMENT BANK  
(ADB)**

(As of March 15, 2012)

The Kyrgyz Republic joined ADB in 1994. ADB's country partnership strategy for the Kyrgyz Republic is presented in the joint country support strategy<sup>15</sup> (JCSS) for 2007–10. The JCSS was prepared in cooperation with four development partners—the Swiss Cooperation, the United Kingdom's Department for International Development, the United Nations Agencies, and the World Bank Group. Four other development partners—the European Commission, the German Government (presented by GTZ and KfW), International Monetary Fund, and United States Agency for International Development joined the JCSS at the later years. In line with the country development strategy, the JCSS identifies four priority areas: (i) promoting economic management consistent with strong and sustained pro-poor growth; (ii) improving governance, promoting effective public administration, and reducing corruption; (iii) building sustainable human and social capital; and (iv) ensuring environmental sustainability and natural resources management.

ADB's country operations business plan (COBP) 2011–12 updates the country strategy and program 2007–10 to better help the country address challenges that arose after political disturbances in April 2010 and a conflict in June 2010, while maintaining consistency with the priorities set out in ADB's Strategy 2020.<sup>16</sup> The program for 2011–12 continues support to public infrastructure and institutional reforms, which will contribute to creating a favorable environment for sustainable growth with broader private sector participation, thereby generating more jobs and income. ADB will continue to support: (i) transport, (ii) water supply and other municipal infrastructure and services, (iii) energy, and (iv) public sector management. Continued support for the education sector, especially for skills development, is being discussed.

ADB is one of the major development partners in the country. All assistance provided to the Kyrgyz Republic is from concessional ADB's special fund resources—Asian Development Fund (ADF). As of 15 March 2012, the country has received 32 loans worth US\$791.2 million, 14 ADF and one GEF grants worth US\$249.1 million. The Kyrgyz Republic has also received seven grants from Japan Fund for Poverty Reduction (JFPR grants) amounting to US\$7 million. Nine operations totaling US\$252 million provided to support policy reforms to facilitate the transition to a market economy. The remaining operations (worth US\$788.3 million) were provided to support various investment activities. At present, seven loans and 10 grants with approved amount of US\$421.4 million are ongoing.

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<sup>15</sup> ADB. 2007. *Joint Country Support Strategy (2007–10): Kyrgyz Republic*. Manila.

<sup>16</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–20*. Manila.

The Kyrgyz Republic has been eligible for 50 percent grant and 50 percent ADF loan since 2009. The indicative allocation for the two years 2011–12 is US\$100 million. ADB's annual lending began with US\$40 million in 1994 and reached the peak level of US\$167.8 million in 2010.

In addition to investment loans and grants, ADB has provided 76 technical assistance (TA) projects amounting to US\$43.15 million as of today. ADB also provides technical assistance through the regional technical assistance facility. Among the most recent assistance is technical assistance for developing an e-procurement strategy for the Kyrgyz Republic.

The performance of ADB's portfolio is partially satisfactory with three projects having "actual problems" as of end December 2011, namely: (i) Power Sector Improvement Project - because of late effectiveness and delay in consultants recruitment due to taxation issues; (ii) Issyk-Kul Sustainable Development Project – for delays in meeting contract awards and disbursement targets; and Community-Based Infrastructure Services Sector Project (Supplementary) - due to poor project management and implementation, and poor quality of civil works. . Contract awards and disbursements by 31 December 2011 reached \$105.96 million and \$103.41 million; 83.5% and 86% of year's projections, respectively.

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

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

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

**ANNEX IV. KYRGYZ REPUBLIC—RELATIONS WITH THE EUROPEAN BANK FOR  
RECONSTRUCTION AND DEVELOPMENT (EBRD)**  
(As of March 1, 2012)

**Overview of EBRD Activities to Date**

The Bank has been actively supporting the transition in Kyrgyz Republic since 1995. From 1995 to the end of February 2012, the Bank signed 84 projects accounting for a net cumulative business volume of €405 million. During 2008-2010 the Bank was signing on average 9–10 projects per year, while in 2011 it did a record of 17 transactions. The annual business volume has been steadily increasing over the last 4 years from €12 million in 2008 to €86 million in 2010. In 2011 despite the high number of transactions these were smaller in size resulting in the annual business volume of €66 million. The current private sector portfolio ratio (as a percentage of the total portfolio) is 78 percent which is well above the Bank's 60 percent mandated ratio. In September 2011, EBRD's Board has approved a new country strategy for the Kyrgyz Republic, which is designed to ensure continued EBRD support for the recovery of the country's economy and sustainable growth after a period of social and political unrest in the recent past. The EBRD's key priorities under the new country strategy will be supporting local private enterprises, in particular through support for micro, small and medium sized enterprises (MSMEs), alongside support to strengthen the financial sector and develop critical infrastructure.

**Fostering the Private Sector:** The Bank's operations in support of local private enterprises took advantage of the ETC Initiative, which was instrumental in enabling the Bank to deliver a number of small projects with significant transition impact, particularly in the areas of corporate governance and business conduct. Despite difficult economic and political situation in the country the Bank signed four corporate sector projects in 2011.

- Under the Direct Lending Facility (DLF), in 2011 the Bank supported two manufacturing sector operations (a local furniture producer and expansion of gas stations to the regions).
- In July 2011 the Bank has approved a new €8 million additional loan to Interglass LLC, the largest industrial glass producer in Central Asia, to complete the upgrade and modernization the plant's facilities, located at Tokmok, northern Kyrgyzstan.
- Under the Medium-Sized Co-Financing Facility (MCFF), the Bank supported one of the leading distribution companies of packaged food products and cosmetic goods. This was a modest achievement, with fewer deals under MCFF than expected coming to fruition. Following the 2010 crisis, it was particularly difficult to identify larger size investment projects that could be well supported by MCFF.
- Under operations of its Small Business Support team, the Bank facilitates the skills transfers to the local consultancy industry and improves the know-how and management of the MSME sector through its two twin programs: Enterprise Growth Programme

(EGP) and Business Advisory Services (BAS). The objective of the EGP is to assist MSMEs to operate successfully and help to develop new business skills at the senior management level in order to be able to compete in a market economy. The EGP introduces industry-specific management expertise by providing the advisory services of experienced senior executives from economically developed countries. These advisers transfer management and technical know-how to enterprises, sharing their commercial experience directly with the CEOs and senior managers of local companies.

- On the other hand EBRD BAS Kyrgyz Republic enables MSMEs to access a diverse range of consulting services by facilitating projects with local consultants on a cost sharing basis. Direct assistance to enhance enterprise performance is combined with systemic market development activities to create sustainable and commercially viable infrastructures of MSME support in the Bank's countries of operations. As of the end of 2011 BAS Kyrgyz Republic had undertaken 474 projects engaging 205 consultants. 60 percent of the enterprises assisted are located in rural areas outside the main cities. Despite the difficult business climate, turnover increased in nearly 66 percent of BAS beneficiary companies in the year following project completion, while 14 percent of beneficiaries secured external investments with an average size of €530,000. After events in 2010, BAS has undertaken a crisis response initiative to provide 90 percent subsidy to MSMEs located in Osh, Djalal-Abad and Batken oblasts. BAS also supported professional capacity building of local advisory services to serve the MSME sector on a sustainable basis and introduced more sophisticated advisory services in areas such as quality management and energy efficiency. BAS Kyrgyz Republic is co-funded by the Swiss Government.

**Strengthening Financial Institutions:** In 2011 the EBRD continued supporting the country's financial institutions. The Bank signed nine new loan agreements with local banks and MFIs in local currency, including the first ever syndicated A/B Loan with FMO participation in Kyrgyz Republic, as part of the Bank's Local Currency and Local Capital Market Initiative, a risk-sharing programme supported by donor grants to catalyze local currency lending in the early transition countries (ETC). The Bank has also supported the development of Kyrgyz Investment and Credit Bank via participation in equity increase. The Bank has been actively engaged in policy dialogue on stabilizing the banking sector and strengthening deposit insurance and provided TC to its partner financial institutions under the Kyrgyz Financial Sector Framework.

The Bank has continued moving its partners forward in area of corporate governance, through strengthening external and internal audit, improving shareholder transparency, and implementing better internal policies and procedures.

To reduce dollarisation and develop local currency capital markets, the Bank conducted a local capital markets assessment mission in December 2011. It has also offered TC to the NBKR to improve the forecasting and control of inflation while improving its internal and external communication on monetary and exchange rate policy.

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

- Under this framework in 2011, the Bank continued implementation of the first Bishkek water rehabilitation project where the Swiss Government and the EBRD provided €11.8 million to improve the water supply in Bishkek. The project is financed by a grant of €5.7 million from the Swiss Government and a €5.5 million sovereign loan from EBRD.
- In May 2011, the Bank signed new water/wastewater projects for Osh and Jalalabad municipalities. The EBRD's €6 million loan to the projects is co-financed by a capex grant from SECO (Switzerland). The capex grant is required to meet IMF conditions for nonconcessional lending and mitigate affordability constraints. Projects in the water sector enabled the Bank to make progress with water tariff reforms, meeting IFRS accounting standards, and promoting efficiency in the Bishkek water company.
- In order to support the transport infrastructure of Bishkek city the Bank provided a sovereign loan of up to €7.7 million co-financed by a capital grant from the EBRD Shareholders' Special Fund of €4.2 million to finance the purchase of new trolleybuses and partial rehabilitation of related infrastructure. In addition, this investment will provide support for the introduction of electronic ticketing in the municipally operated public transport sector in Bishkek.

**Policy Dialogue:** EBRD is continuing support to the Investment Council, which has been providing local and international business representatives (representing the mining, industry, agro-processing and tourism sectors) with a forum to discuss the main barriers to doing business with top officials of the government. Following the political events and subsequent changes in 2010, the new government acknowledged its commitment to improve the investment climate in the country and renamed the council as the Council for Business Development and Investment. The donor community expressed its readiness to continue its full support to the Council under the new government.

- The Bank continued to actively engage in policy dialogue with the government and local authorities to promote the further reform agenda in corporate and infrastructure sectors, although reform efforts were temporarily suspended due to the internal political crisis.
- The Bank strengthened its collaboration with the Kyrgyz Supreme Court with a view to increasing capacity in the judiciary dealing with commercial disputes. Since 2007, the Bank provided technical advice to the Judicial Training Centre, trained judicial trainers, delivered commercial law training seminars for up to 240 existing judges, created a law library at the Supreme Court, organized internships in the courts of Kazakhstan and Russia, and published a bench book on commercial law. The Bank expanded its assistance in 2010 to help establish a training system for candidate judges, and implement a fair and transparent judicial selection process. In 2011 under Juridical Capacity Building Project of EBRD 36 Judges have received Certificates for Successful Completion of Training for Judges who successfully passed Training Program for Applicants to the Position of Local Courts Judges of the Kyrgyz Republic.
- The Bank will offer TC to support the government's efforts to improve public procurement under the joint EBRD–UNCITRAL technical cooperation project designed to upgrade public procurement regulation in the CIS to the new UNCITRAL Model Law on Procurement of Goods, Construction, and Services.
- The Bank intends to support the development of local capital markets through policy dialogue, TC and possible projects deepening the market and reducing bank funding mismatches.
- The Bank is exploring possible TC support to the government's plans to overhaul mining sector laws and regulation.

**ANNEX V. KYRGYZ REPUBLIC—TECHNICAL ASSISTANCE PROVIDED BY THE FUND**

February 2003–March 2012

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

	Tax Administration Diagnostic Mission (TPA TTF Module 6)	September 16–29, 2011	Ministry of Finance, State Tax Service, State Customs Service
	Unified Chart of Accounts	November 3–11, 2011	Ministry of Finance
	Public Finance Management	December 8–13, 2011	Ministry of Finance
	Tax Administration Reform	February 27–March 17, 2012	State Tax Service
	Government Finance Statistics	February 13–27, 2012	Ministry of Finance
MFD/ MCM	Review of the Capital Adequacy and Dividend Arrangements for the National Bank of the Kyrgyz Republic	August 18–28, 2003	National Bank of the Kyrgyz Republic
	Review of Debt Restructuring Operation and 2003 Financial Reporting	October 28–November 10, 2003	National Bank of the Kyrgyz Republic
	Monetary Operations, Banking System Development, and Central Bank Autonomy	September 13–23, 2004	National Bank of the Kyrgyz Republic
	Review of NBKR Debt Restructuring Arrangements, Options for Deepening Financial Markets and Amendments to the NBKR Law	December 7–18, 2004	National Bank of the Kyrgyz Republic
	Payments System	January 25–February 7, 2005, April 12–25, 2005, October 18–27, 2005, February 20–March 5, 2006, October 16–27, 2006, March 3–17, 2007, December 9–15, 2007, May 19–June 3, 2008, February 23–March 11, 2009, September 22–October 9, 2009	National Bank of the Kyrgyz Republic
	Bank Supervision and Regulation	February 23–March 8, 2005, May 18–28, 2005, July 17–28, 2005, October 02–13, 2005, January 15–26, 2006, February 12–23, 2006, March 20–30, 2006	National Bank of the Kyrgyz Republic

	FSAP update	September 5–15, 2005 October 10–23, 2006	National Bank of the Kyrgyz Republic
	AML/CFT	April 19–25, 2006	National Bank of the Kyrgyz Republic
	Monetary Framework, Operations, and Liquidity Management	June 25–July 15, 2007	National Bank of the Kyrgyz Republic
	Islamic Banking Framework	February 4–12, 2008	National Bank of the Kyrgyz Republic
	Assessment of the Government Primary and Secondary Market Arrangements in the Kyrgyz Republic	May 6–16, 2008	National Bank of the Kyrgyz Republic
	Public Debt Management	July 14–31, 2009	Ministry of Finance and others
	Risk Management within the Islamic Banking Framework	July 6–15, 2009	National Bank of the Kyrgyz Republic
	Financial Stability Analysis and Stress Testing	March 10–18, 2010	National Bank of the Kyrgyz Republic
	Improving the Bank Resolution Framework	March 31–April 9, 2010	National Bank of the Kyrgyz Republic
	Bank Resolution	May 31–June 3, 2010	National Bank of the Kyrgyz Republic
	Bank Resolution	July 26–August 1, 2010	National Bank of the Kyrgyz Republic
	Bank Resolution	August 10–19, 2010	National Bank of the Kyrgyz Republic
LEG	Update of the AML/CFT Legislation (jointly with MFD)	February 5–11, 2004	National Bank of the Kyrgyz Republic
	Review of Bank Legislation	March 1–4, 2004 April 26–May 6, 2004	National Bank of the Kyrgyz Republic
	Review of Tax Legislation	July 27–August 5, 2004	Ministry of Finance
	Assisting in drafting Tax Code	December 4–10, 2005	Prime Minister's office
	AML/CFT Follow-up	July 2–6, 2007	National Bank of the Kyrgyz Republic

AML/CFT Follow-up	September 3–6, 2007	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
AML/CFT Framework	February 11–15, 2008 March 3–7, 2008	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
Review of the draft Tax Code	April 22–30, 2008	Ministry of Finance
AML/CFT capacity building	March 25–31, 2009	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
AML/CFT Follow-up	May 18–29, 2009	NBKR and State Financial Intelligence Service
AML/CFT Follow-up	August 3–14, 2009	NBKR and State Financial Intelligence Service
AML/CFT follow-up	September 22–25, 2009	State Financial Intelligence Service
AML/CFT Follow-up	October 5–16, 2009	NBKR, State Financial Intelligence Service
AML/CFT Follow-up	January 27–29, 2010	State Financial Intelligence Service
AML/CFT Follow-up	February 22–March 4, 2010	NBKR, State Financial Intelligence Service
AML/CFT Follow-up	January 18–20, 2011	NBKR, State Financial Intelligence Service
Legal Framework for Crisis Management and Bank Resolution	March 9–23, 2011	NBKR, MoF, Deposit Protection Agency, Debt Enterprise Bank Resolution Agency, Ministry of Foreign Affairs, Union of Banks
Legal Frameworks for Bank Resolution	September 6–16, 2011	NBKR, Debt Enterprise Bank Resolution Agency
AML/CFT Follow-up	October 17–21, 2011	NBKR, State

			Financial Intelligence Service, Public Prosecutor
	Legal Frameworks for Bank Resolution and Central Banking	March 5–15, 2012	NBKR
STA	SDDS Subscription	January 28–February 5, 2004	National Statistical Committee
	Balance of Payments Statistics	March 15–29, 2004	National Bank of the Kyrgyz Republic
	Monetary and Financial Statistics	April 27–May 11, 2004	National Bank of the Kyrgyz Republic
	National Accounts Statistics	November 17–28, 2008	National Statistics Committee
	Government Finance Statistics	November 11–14, 2008	Ministry of Finance
	National Accounts Statistics	March 1–12, 2010	National Statistics Committee

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### List of Resident Advisors

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MFD	Banking Supervision/Restructuring Advisor	Mr. Svartsman	January 2004–January 2005
MFD	Public Debt Policy and Management	Mr. Azarbayejani	December 2002–December 2004
MCM	Debt Management and Development of Government Securities Management	Mr. Riecke	August 2006–June 2011
MCD	Macroeconomic Analysis and Forecasting	Mr. Petkov	January 2010–January 2011
MCM	Banking Supervision/Restructuring Advisor	Mr. Svartsman	October 2010–present

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**ANNEX VI. KYRGYZ REPUBLIC—STATISTICAL ISSUES**

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

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

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

**National accounts**

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

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

**Price and labor market statistics**

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

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

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

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

**Government finance statistics**

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

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

### **Monetary and financial statistics (MFS)**

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

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

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

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

### **External sector statistics**

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

**Kyrgyz Republic: Table of Common Indicators Required for Surveillance**  
(As of March 30, 2012)

	Date of latest observation	Date received	Frequency of data <sup>7</sup>	Frequency of reporting <sup>7</sup>	Frequency of publication <sup>7</sup>	Memo Items:	
						Data Quality Methodological soundness <sup>8</sup>	Data Quality Accuracy and reliability <sup>9</sup>
Exchange Rates	03/28/12	03/28/12	D	D	W		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	03/28/12	03/28/12	M	M	M		
Reserve/Base Money	03/28/12	03/28/12	D	D	M	LO, O, LO, LO	LO, O, O, LO, LO
Broad Money	02/28/12	03/28/12	M	M	M		
Central Bank Balance Sheet	03/28/12	03/28/12	D	D	M		
Consolidated Balance Sheet of the Banking System	02/28/12	03/28/12	M	M	M		
Interest Rates <sup>2</sup>	03/15/12	03/28/12	W	W	W		
Consumer Price Index	02/28/12	03/10/12	M	M	M	O, LO, O, O	LO, LO, O, O, O
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —General Government <sup>4</sup>	02/28/12	03/28/12	M	M	A	O, LNO, LO, O	LO, O, O, LO, LO
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —Central Government	02/28/12	03/28/12	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	12/30/11	02/28/12	Q	Q	Q		
External Current Account Balance	12/30/11	02/28/12	Q	Q	Q	LO, LO, LO, LO	O, LO, LO, LO, LO
Exports and Imports of Goods and Services	12/30/11	02/28/12	Q	Q	Q		
GDP/GNP	02/28/12	03/28/12	M	M	M	O, O, LO, O	LO, LO, LO, O, O
Gross External Debt	12/30/11	02/28/12	Q	Q	A		
International Investment Position <sup>6</sup>	12/30/11	02/28/12	Q	Q	Q		

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

<sup>2</sup> Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

<sup>3</sup> Foreign and domestic financing only.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Includes external gross financial asset and liability positions *vis-à-vis* nonresidents.

<sup>7</sup> Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I), Not Available (NA).

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

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



Press Release No. 12/153  
FOR IMMEDIATE RELEASE  
April 27, 2012

International Monetary Fund  
Washington, D.C. 20431 USA

## **IMF Completes Second Review Under an ECF Arrangement with the Kyrgyz Republic, Approves US\$14.7 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Kyrgyz Republic's economic performance under the program supported by a three-year, SDR 66.6 million (US\$103.1 million) Extended Credit Facility arrangement that was approved by the IMF's Executive Board on June 20, 2011 ([Press Release No. 11/245](#)). The Board's decision was taken on a lapse of time basis.<sup>1</sup> Approval of the review makes SDR 9.514 million (US\$14.7 million) available to the Kyrgyz Republic. This would bring total disbursements under the arrangement to SDR 28.542 million (US\$44.2 million).

Strong adherence to the policies agreed under the Fund-supported program has played an important role in achieving economic recovery and macroeconomic stabilization. Economic growth was strong and broad-based, supported by political stability, a favorable external environment and credit growth. Inflation has dropped substantially, although underlying inflationary pressures remain. Fiscal adjustment is on track and system-wide banking sector indicators are improving. The government established a commission to oversee public financial management reforms and is advancing the overall structural reform agenda. In light of the uncertain global economic outlook, downside risks remain.

The fiscal stance for 2012 is appropriate and reflects pressing social and infrastructure development needs. Over the medium term, fiscal consolidation supported by strong revenue measures and prudent expenditure policies remains key to safeguard macroeconomic stability and rebuild policy buffers. Continued tight monetary policy this year will help to further reduce inflationary pressures.

To sustain strong growth over the medium term, it is essential to improve the business climate, strengthen governance and key institutions, move expeditiously in implementing financial sector reforms, and press ahead with public financial management and tax reforms. Continued implementation of sound policies under the ECF arrangement will help to strengthen the Kyrgyz Republic's resilience to external shocks, improve the prospects for stable and sustained economic growth and poverty reduction, and facilitate external support.

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<sup>1</sup> The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.