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KYRGYZ REPUBLIC

May 2015

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—STAFF REPORT; AND PRESS RELEASE

In the context of the Request for a Three-Year Arrangement Under the Extended Credit Facility, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 8, 2015, following discussions that ended on January 29, 2015, with the officials of the Kyrgyz Republic on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on March 25, 2015.
- An **Informational Annex** prepared by the IMF.
- A **Press Release** including a statement by the Chair 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 the Kyrgyz Republic*
Memorandum of Economic and Financial Policies by the authorities of the Kyrgyz Republic*
Technical Memorandum of Understanding*
*Also included in Staff Report.

The 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

March 25, 2015

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

KEY ISSUES

Context. Performance under the previous Extended Credit Facility (ECF) arrangement, which expired last July, was good. Macroeconomic stability was restored, fiscal consolidation was stronger than planned, monetary policy was enhanced through a new interest rate-based framework, and supervision was strengthened in the financial sector. Nevertheless, the economy is facing challenges: (i) a weak regional economic environment, (ii) some key reforms have yet to be implemented, particularly in PFM and the banking sector, and (iii) a higher public debt due to the materialization of an ambitious investment program. Accession to the Eurasian Economic Union (EEU) is expected to take effect in May, and parliamentary elections are slated for late 2015.

Program objectives. In light of the challenges, the Kyrgyz authorities have requested a new 36-month ECF arrangement, with access equivalent to SDR 66.6 million (or 75 percent of quota). The program aims to support the authorities' efforts to generate inclusive growth and reduce poverty through reducing macroeconomic vulnerabilities, achieving fiscal sustainability, supporting banking sector reforms, strengthening debt management, and encouraging structural reforms to expand the economy's potential. The program would also help unlock support from official lenders and provide safeguards against adverse shocks.

Program policies. Fiscal consolidation will pause in 2015 to accommodate external shocks, but will resume in 2016–17 to maintain public debt at sustainable levels. Public debt management will be strengthened through the preparation of a medium-term debt management strategy to be complemented by a review of the public investment framework. Monetary policy will be tighter to keep inflation under control. The exchange rate will continue to be flexible, with limited interventions to smooth volatility. Banking sector resilience will be strengthened through the introduction of macro-prudential measures and the adoption of a comprehensive Banking Code. Structural reforms will be stepped up to expand the economy's potential.

Staff views. Staff supports the authorities' request for an ECF arrangement under a Fund-supported program. The LOI/MEFP provides an adequate set of policies to pursue the objectives of the Fund-supported program. The program, however, carries some risks: (i) a further slowdown in Russia; (ii) additional investment projects could tilt the debt level towards higher risk of debt distress; (iii) unresolved discussions with Centerra, which could impact the operations of the Kumtor gold mine; and (iv) political tensions in the run-up to parliamentary elections, which could temporarily undermine the reform process. Nevertheless, staff assesses Kyrgyz's repayment capacity to the Fund to be adequate.

Approved By
Juha Kähkönen (MCD) and Era Dabla-Norris (SPR)

Discussions were held in Bishkek during October 29–November 11, 2014 and January 21–29 with prime minister Otorbaev, minister of finance Lavrova, minister of economy Sariev, chairman of the central bank Abdygulov, other senior officials, representatives of the private sector, civil society, and the diplomatic community.

The staff team comprised Mr. Gemayel (head), Ms. Gicquel, Mr. Said (MCD), Ms. Salins (SPR), and Mr. Sobolev (Resident Representative), Ms Shambetova, and Ms. Kadyrberdieva (both local economists).

Ms. Ostojic (MCD) backstopped during the January mission. Mr. Heller (OED), Ms. Knight (LEG), and Ms. Elnagar (COM) participated in the October mission. Ms. Lagveshkina and Mr. Surin assisted with interpretation and translation services. Mmes. Stone and Zolas (both MCD) helped prepare the report.

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CONTEXT

1. Performance under the previous ECF arrangement, which expired last July, was good. All reviews were completed without delay and only one performance criterion was missed. Macro-economic stability was restored, and growth picked up after a contraction of 0.5 percent in 2010. Inflation was kept in single digits throughout the program. Fiscal performance was stronger than anticipated, with the deficit declining by more than 2 percentage points over three years. The National Bank of the Kyrgyz Republic (NBKR) launched a new monetary policy framework aimed at enhancing the transmission mechanism. And the financial sector stabilized following the 2010 political and banking crises.[1] While supervision was strengthened, more efforts are needed as highlighted in the 2013 FSAP findings.

2. Nevertheless, the economy remains subject to vulnerabilities. External debt and the current account deficit remain high. This, together with volatile growth and inflation, increases the economy's vulnerability to external shocks. Rapid credit growth, combined with high dollarization and a weakening som, place the banking sector at an elevated risk. Progress in reducing poverty and unemployment has been slow. Weak institutions, political uncertainty, and a challenging business environment further hamper economic development. Dependence on gold, remittances, and foreign aid remains an obstacle for sustained and inclusive growth.

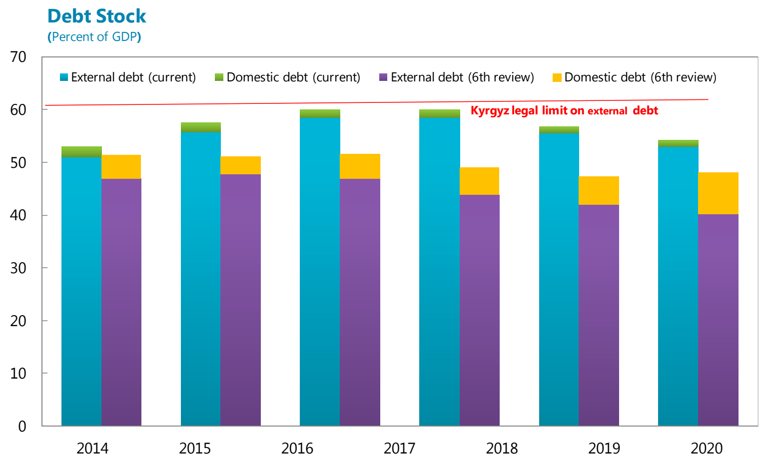
3. Furthermore, key reforms have yet to be implemented. While progress was made in the financial sector and tax administration, key reforms, such as the banking code, treasury single account (TSA) implementation, and revised AML/CFT law, are lagging behind. The tax policy function was returned to the ministry of economy (MoE) last summer, a setback since the last ECF arrangement. The terms of reference for the audit of the debt resolution agency (DEBRA) are being finalized, and the tender should be launched later this year. Progress in governance, transparency, and improving the business environment has been limited. Further reforms are needed to enhance growth and make it inclusive and sustainable.

4. External conditions have deteriorated substantially since last summer. The economic slowdown in Russia is exerting downward pressure on the Kyrgyz economy through remittances and trade. Furthermore, the sharp depreciation of the ruble and devaluation of the tenge have put pressure on the som, resulting in higher inflation. Lower oil price are affecting the Kyrgyz economy negatively through lower growth in Russia but positively through a lower oil import bill.

5. Since last summer, debt has also become a source of concern, following the faster-and-fuller-than-anticipated materialization of the government's public investment program (PIP) driven mainly by Chinese funded projects (Annex I). As a result, public debt grew

[1] At that time, the largest bank AUB and four other smaller banks (all linked to the previous regime) were put under NBKR's conservatorship.

to 53 percent of GDP in 2014 and is projected to rise to 61 percent by 2016, more than 10 percentage points higher than expected at the time of the sixth review. While the PIP should help close a critical energy and infrastructure gaps, the higher debt level brings the country closer to the sustainability threshold, requiring the authorities to pay closer attention to debt management and the efficiency, quality, and cost effectiveness of public investment projects. Absorption capacity should not be an issue as those projects are managed by foreign firms.

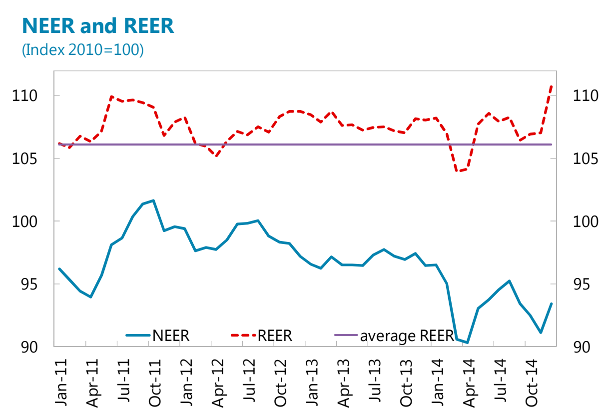


6. The political environment is fluid. With parties gearing up for parliamentary elections in the fall, populist pressure could delay reforms awaiting parliamentary ratification, and changes in the cabinet and ruling coalition cannot be ruled out. Gazprom's acquisition of the insolvent Kyrgyz gas network and plans for a new hydropower project have created tensions with Uzbekistan over gas and water supplies. The difficult negotiations with Centerra Gold on the Kumtor mine are ongoing, and an agreement on a new joint venture has yet to be reached. The labor market could also experience some pressure from returning migrants, especially from Russia.

7. In this context, the authorities request a new ECF arrangement, which draws from the government's priorities, and will provide a policy anchor in a challenging environment.

RECENT ECONOMIC DEVELOPMENTS

8. Real GDP growth slowed to 3.6 percent in 2014, below potential (about 5 percent). Gold output declined to 4.6 percent following a surge in 2013, due to lower quality ore than originally expected**.** Nongold GDP growth remained at about the same level as expected at the time of the sixth review. Trade was sluggish and only started picking up at the end of the year, as a result of the uncertainties of the accession to the EEU. Growth in the construction sector doubled to 24 percent, reflecting materialization of PIPs. However, agriculture performed poorly due to a drought. Private



Source: INS.

consumption growth was halved from 7 to 3 percent while gross fixed investment continued to grow at a healthy pace of 7.5 percent.

9. **While the current account deficit narrowed last year, the overall balance turned negative.** The current account deficit narrowed to 13.7 percent of GDP. Both exports and imports of goods declined due to the regional slowdown, lower quality of gold ore, and lower gold and oil prices; nevertheless, the trade balance remained stable. Exports of services dropped significantly and worker's remittances declined slightly but these effects were offset by a lower level of repatriated profits from FDI and a substantial increase in official transfers. On the financing side, the increase in PIP disbursements has been more than offset by lower capital transfers and a significant drop of FDI inflows, resulting in the overall balance turning negative.

Text Table 1. Kyrgyz Republic: Macroeconomic Projections Comparison

	2014		2015		2016		2017	
	Current	6th review	Current	6th review	Current	6th review	Current	6th review
Real GDP (growth in 5)	3.6	4.4	1.7	4.9	3.4	5.0	5.2	5.1
Nongold real GDP (growth in percent)	4.6	4.5	2.7	4.7	2.9	5.0	4.4	5.1
Consumer prices (percent change, eop)	10.5	8.5	10.1	6.5	7.8	6.0	6.3	5.5
Overall fiscal balance including onlending (percent of GDP)	-3.7	-4.2	-7.6	-3.2	-6.4	-2.8	-3.9	-2.5
Public external debt (percent of GDP)	53.0	46.8	58.8	47.4	61.2	46.8	61.0	43.8
Reserve Money (percent change, eop)	-11.9	11.1	1.3	11.1	10.6	10.5	9.8	10.1
Current account deficit (percent of GDP)	-13.7	-15.6	-17.0	-15.5	-15.1	-13.6	-13.4	-10.6
Gross international reserves (in millions of U.S. dollars)	1,856	2,128	1,665	2,336	1,790	2,738	1,852	3,093
Gross internatonal reserves (in months of imports)	3.7	3.5	3.1	3.6	3.2	4.1	3.2	4.6

Sources: Kyrgyz authorities and IMF staff estimates and projections.

10. **The deficit in the overall balance was financed by international reserves as the NBKR sold foreign exchange to contain sustained depreciation pressures.** The net sale of foreign exchange amounted to US$516 million (about 23 percent of international reserves), and served to limit the depreciation of the som relative to the dollar to 20 percent. However, as the som appreciated sharply against the ruble, the nominal effective exchange rate (NEER) appreciated by 3.5 percent.[2] The som real effective exchange rate (REER) appreciated by 2.5 percent.

11. **Despite efforts to tighten monetary policy, inflation rose to double digits driven by a drought and the depreciation of the som relative to the dollar.[3]** The NBKR's sale of foreign exchange tightened liquidity sharply, resulting in a contraction of reserve money by 12 percent. Furthermore, since last April, the NBKR raised its policy rate by 5 percentage points and has maintained it positive in real terms since November. The NBKR has also tightened reserve requirements by increasing the daily minimum maintenance from 75 to 90 percent.

[2] The NEER appreciation is the result of the impact of the ruble depreciation which has outweighed that of the dollar appreciation. While this would suggest reduced inflationary pressures, however, given that a large part of imports (e.g., oil, electricity, wheat) is paid in US dollars, inflation has instead increased.

[3] The estimated pass-through of 1 percent som depreciation on food is 0.17 percent and on nonfood items is 0.3 percent.

12. In 2014 fiscal performance was better than anticipated at the time of the sixth review, largely reflecting one-off developments (Text Table 2). The overall deficit including onlending reached 3.7 percent of GDP, compared to a projection of 4.2 percent. The gross operating balance improved substantially by 2.7 percentage points. Revenues were higher than projected (+3.8 percentage points) due to bilateral grants, and other non tax revenues. Non-tax revenues exceeded expectations as a result of exceptional dividends from Alpha Telecom, a windfall from improved accounting,[4] and additional revenue from Manas transit center. While current expenditures were higher than anticipated due to higher spending on goods and services, capital expenditures surpassed projections by 1.9 percentage points due to the materialization of large infrastructure projects. The deficit was financed by concessional borrowing, more than half of which from China, but also through program loans from Turkey, the World Bank, and the Fund. Public debt increased to 53 percent of GDP, 1.6 percentage points higher than anticipated at the time of the sixth review.

Text Table 2. Kyrgyz Republic: General Government Finances, GFSM 2001 Presentation
Comparison Between Actual Data and 6th review of the ECF
(In percent of GDP) 1/

	2014		Difference
	Year Act.	6th ECF Review	Act - 6th rev
Revenue	36.0	32.2	3.8
Taxes	20.8	21.0	-0.1
Social contributions	5.7	5.3	0.4
Grants	3.5	2.5	1.0
Other revenue	6.0	3.4	2.6
Expense	30.3	29.2	1.1
Compensation of employees	8.9	8.8	0.1
Purchases/use of goods and services	7.5	6.5	1.0
Interest	0.9	0.9	0.0
Subsidies and social benefits	12.8	13.0	-0.2
Gross operating balance	5.7	3.0	2.7
Net acquisition of nonfinancial assets	5.5	7.2	-1.7
Acquisition of nonfinancial assets	5.5	7.5	-2.0
Acquisition of nonfinancial assets, incl. onlending	9.4	7.5	1.9
Domestically financed	2.3	2.5	-0.2
Foreign financed	3.2	5.0	-1.8
Disposals of nonfinancial assets	0.0	0.3	-0.3
Overall balance including onlending	-3.7	-4.2	0.5

Sources: Kyrgyz authorities and IMF staff estimates and projections.

13. Two developments dominated the financial sector in 2014, rapid credit growth and higher dollarization (Text Table 3). Credit grew by 44 percent in 2014, albeit from a low basis, and the ratio of loans to GDP remains low at 21 percent. Credit grew fastest in the trade, agriculture, industry, and consumer sectors. Nonperforming loans (NPLs) grew in absolute terms but the ratio of NPL to total loans fell by 1 percentage point to 4.5 percent. Dollarization deepened significantly in 2014, driven by the som depreciation.

Text Table 3. Kyrgyz Republic: Banking Sector Indicators

	2013	2014
Currency outside banks / M2	51.2	41.7
M2/GDP	34.0	31.3
Banking sector total assets/GDP	32.3	36.0
Banking sector total deposits/GDP	16.6	18.3
Bank credit to private sector/GDP	16.1	20.7
Loans to deposit ratio	93.2	109.7
Loan to deposit ratio, foreign currency	97.5	107.9
Dollarization of deposits	51.1	55.6
Dollarization of loans	50.8	59.0

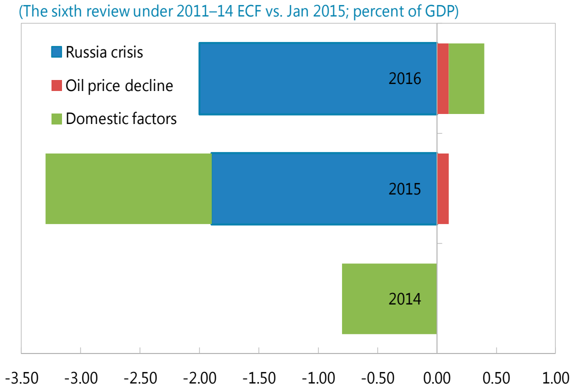
Source: The NBRK data.

[4] The authorities have undertaken an exercise to consolidate their accounting system as some accounts were not captured in the budget.

OUTLOOK AND RISKS

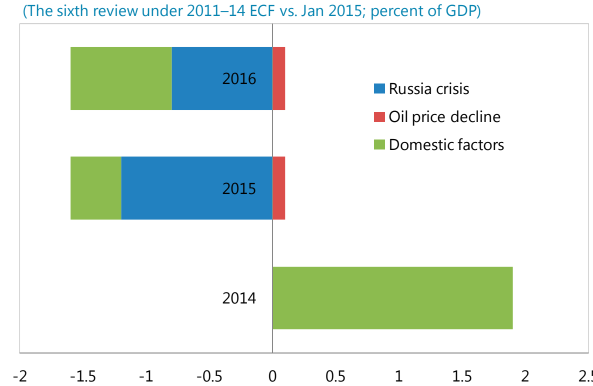
14. Staff and the authorities were in agreement on the 2015 outlook, which is marked by adverse developments. The slowdown in the regional economies, especially Russia, and a lower gold output are expected to limit growth to 1.7 percent and weaken medium-term prospects (Text Table 1 and chart below). Inflation is expected to remain around 10 percent due to pressures on the som and limited effectiveness of monetary policy. The budget will face pressures from foreign-financed investment projects, and the upcoming parliamentary elections could add to spending pressures. The current account deficit is expected to widen significantly to 17 percent of GDP, due mainly to a projected 15 percent decline in remittances, lower gold exports, and lower regional trade.

GDP Revisions
(The sixth review under 2011–14 ECF vs. Jan 2015; percent of GDP)



Sources: Kyrgyz authorities and IMF staff calculations.

Current Account Revisions
(The sixth review under 2011–14 ECF vs. Jan 2015; percent of GDP)



Sources: Kyrgyz authorities and IMF staff calculations.

15. Staff and the authorities also concurred that over the medium term, the economy should return to its potential, while inflation would drop to mid-single digits. Growth is expected to reach 5 percent by 2017, led by a rebound in investment and exports, and supported by a strong private sector credit growth, with remittances gradually recovering to their 2013 level. Inflation is expected to gradually drop to about 5 percent. The current account deficit would gradually drop below 10 percent of GDP, helped by fiscal consolidation, greater exchange rate flexibility, and structural reforms that enhance the economy's competitiveness. These efforts would also allow reserves to remain above three months of imports. Public debt is expected to peak at 61 percent of GDP in 2016 reflecting the large PIP before gradually declining in the outer years.

16. The Kyrgyz Republic is scheduled to join the EEU in May 2015 (Annex II). The Kyrgyz Republic's share of the customs revenue is 1.9 percent. While the short-term effects of the accession on growth and inflation are expected to be mixed, medium-term prospects are more positive. The creation of a US$1 billion Russia-Kyrgyz development fund and a US$200 million Russian grant to help implement the road map to join the customs union could mitigate the short-term effects.

17. There was a broad agreement between staff and the authorities on the risks, which are tilted to the downside (Annex III). A sustained slowdown in trading partners, especially Russia, could hurt growth and the balance of payments. The continued fall of the som in the wake of the falling ruble could increase inflationary pressures. Additional investment projects could tilt the debt level towards higher risk of debt distress. Renewed problems with the Kumtor gold mine, and further drop in gold prices, could have budgetary implications and hurt growth. Political tensions could rise in the run-up to this year's parliamentary elections, with populist rhetoric undermining reforms awaiting parliamentary ratification. Upside risks include the strengthening of economic ties with China, which could boost growth prospects, and the materialization of the US$1 billion Russia-Kyrgyz development fund, provided these funds are put to good use.

THE AUTHORITIES' PROGRAM

The proposed ECF arrangement draws from the government's 2013–17 National Strategy for Sustainable Development. It supports the authorities' efforts to reduce macroeconomic vulnerabilities, achieve fiscal sustainability, support financial sector stability, maintain debt at sustainable levels, and encourage structural reforms towards expanding the economy's potential. The program should also help unlock support from official lenders and provide protection against adverse shocks.

A. Fiscal Policy

Fiscal consolidation will pause in 2015 to accommodate external shocks, and resume in 2016–17 to maintain public debt at sustainable levels.

18. The 2015 budget is predicated on an increase in public investment to close infrastructure and energy gaps. The budget targets a slight deterioration in the operating balance, which is projected to reach 5.3 percent of GDP, mainly due to lower revenues. The overall fiscal deficit including onlending is projected to widen to 7.6 percent of GDP, driven by the increase in PIPs. Staff estimates that this deficit will generate a fiscal impulse of 3.8 percent of GDP resulting from the surge in PIPs. However, the impact of PIPs on growth is expected to be limited during the construction period due to high import content, including labor (Annex I). The deficit will be financed primarily from concessional PIP borrowing, half of which from China, but also through program loans from the World Bank and the Fund.

19. Tax revenues will remain flat this year. Given the weakening economic environment and the upcoming parliamentary elections, the authorities sought to postpone tax policy measures until next year and focus on tax and customs administration measures. Staff agreed with this approach provided that these measures enable tax revenues to remain constant as a share of GDP. Grants are expected to increase by 1.2 percentage points due to project grants, while nontax revenues are expected to decrease by 1.7 percentage points due to the closure of the Manas transit center and the exceptional nature of some nontax revenues last year.

20. Current expenditures in 2015 will continue their downward path, whereas capital expenditures will continue to increase. Current expenditures are expected to drop by 0.6 percentage point as the authorities intend to continue reducing the wage bill and streamline untargeted social benefits by improving forecasting and procurement. Capital expenditures will increase sharply to 9.3 percent of GDP as part of the authorities' efforts to ramp up their investment in energy and infrastructure. As in 2014, the financing will come mostly from foreign financed concessional loans, of which more than one-third are from China.

21. During the discussions, the authorities advocated an increase in teachers' salaries by a total of 50 percent—with a full-year effect of 1.3 percent of GDP—starting with an increase in September, noting that these salaries had been frozen since 2011. Staff considered that ad-hoc salary increases, particularly just ahead of parliamentary elections, would open the door for similar requests by other civil servants, and encouraged the authorities to draw an action plan for the reform of public sector staffing and remuneration policies to reduce wage bill as a share of GDP (SB, December 2015) based on the recently completed World Bank public expenditure review. Regarding the teachers' salary increase, the authorities agreed to make the increase budget neutral by taking offsetting fiscal measures.

22. Fiscal adjustment will accelerate in 2016-17 to compensate for the pause in 2015 (Text Table 4). Over the two years, the program targets an improvement in the overall fiscal balance (excluding onlending) of 0.8 percentage points of GDP, which would maintain the government's external debt below 60 percent of GDP, thereby respecting domestic legislation to that effect. Tax revenues would increase by 0.6 percentage points of GDP, while current expenditures would decrease by 2.3 percentage points of GDP. Grants are expected to decrease by a little less than 2 percentage points of GDP and capital expenditures are anticipated to stay at a high level during the program period. Financing of the deficit will continue to rely on external sources.

Text Table 4. Kyrgyz Republic: Fiscal Effort in Percentage Points of GDP

	2015	2016	2017
Tax revenues	0.0	0.3	0.3
Current expenditures	0.6	1.7	0.5
Fiscal effort	0.6	2.0	0.8

Sources: Kyrgyz authorities and IMF staff estimates and projections.

23. To meet the above fiscal targets, staff and the authorities agreed on strong tax policy measures starting 2016 (MEFP ¶12). The measures, which would need to be enacted by parliament in 2015, are intended to expand the tax base, reduce exemptions, and increase some tax rates. To this end, the government will submit to parliament a draft tax law to: (i) strengthen the VAT by reducing the number of exemptions, (ii) gradually phase out the sales tax; (iii) gradually limit the use of the patent system; and (iv) adopt a simplified recordkeeping and reporting requirement (SB, June 2015). Additionally, the authorities are committed to refrain from renewing exemptions or introducing new ones. Staff also encouraged a reduction in existing exemptions in other taxes besides VAT. However, the authorities argued that these were granted by legislation and did not see it feasible to reverse them, especially in an election year.

24. The authorities are committed to strengthen tax administration (MEFP ¶28). To that effect, they plan to restructure the state tax service (STS) administration to strengthen its organizational structure and management, and align its core processes with international best practices. These would necessitate the reorganization of the institutional structure of the STS, by reducing the duplication of function with respect to inter-regional tax service departments (SB, April 2015). The authorities also intend to strengthen the large taxpayers' unit (LTU) as this would reduce the STS overall collections risks' exposure.

25. Streamlining current expenditure will remain a priority under the authorities' program (MEFP ¶14). To that effect, the authorities intend to reduce spending on goods and services and the wage bill in percent of GDP by streamlining non-priority spending and undertaking a revision of public wages. Additional savings could also come from improvement in procurement. The authorities also plan to conduct a cost-benefit analysis of subsidies, especially in the power sector, and propose an action plan for reducing their fiscal impact, which may necessitate Fund TA. Staff and the authorities agreed that when reforming the subsidy programs mitigating the impact of these reforms on the vulnerable will be critical, and would require gradually increasing social spending over the course of the program.

26. PFM reforms are still lagging. The introduction of the Treasury Single Account (TSA), critical for improving the transparency and accountability of the budget and treasury operations, is delayed pending the identification of a new service provider. To push the process forward, the authorities agreed to select a provider to integrate the automated national treasury system with the interbank payment system (SB, September 2015). A setback was the transfer back to the ministry of economy of the tax policy function from the ministry of finance, a success under the previous program, which would have allowed the ministry of finance to become the focal point on all tax policy-related matters. While staff would have preferred to see the tax policy function returned to the ministry of finance, the authorities argued that having this function at the ministry of economy would provide for a better interaction with the business community. To ensure better linkage between tax policy and the budget process, staff and the authorities agreed that the government would seek ministry of finance consent on all new tax measures. Finally, both the budget and procurement laws are awaiting parliamentary enactment since 2012 and 2014, respectively.

27. The authorities are committed to ensuring that the newly established US$1 billion Russia-Kyrgyz development fund, once operational, will adopt a transparent and accountable governance framework (MEFP ¶18). The fund, financed equally by a grant and a concessional loan from Russia, is not yet incorporated. The authorities, which intend to invest only in private sector projects, have also yet to define the rules and regulations governing the work of the fund. Staff stressed the need for the adoption of a governance structure to ensure that the fund's activities will not create sovereign contingent liabilities.

Public debt

28. Public debt levels will deteriorate over the medium-term due to a faster materialization of PIPs. Disbursements in 2014 reached US$445 million, compared to an initial estimate of US$331 million. Furthermore, for planning purposes the authorities used to apply a 30 percent discount on disbursements to account for delay or non-materialization of projects. Given the faster-than-expected materialization in 2014 and to avoid future surprises, staff and the authorities agreed to remove the discount from projections. As a result, over the medium term public debt is projected to rise sharply, reaching 61 percent of GDP by 2016, compared to 52 percent at the time of the sixth review under the previous ECF arrangement.

29. While debt is expected to remain at sustainable levels during the program period, vulnerabilities have increased, requiring action (MEFP ¶16–17). As shown in the DSA (Annex IV), under the baseline scenario, the ratio of PV of external public debt to GDP and remittances reaches a maximum of 32.4 percent in 2016—compared to 22 percent under the last DSA—remaining under the 36 percent threshold. While debt remains at a moderate risk of debt distress, vulnerabilities have increased. To address them, staff and the authorities agreed on the following measures: (i) ensure continuous full disclosure of the authorities' PIP plans and commitments; (ii) refrain from non-concessional borrowing; and (iii) ground borrowing decisions in a medium-term debt strategy (MTDS) (MEFP ¶17). (SB, April 2015). To improve the efficiency of the investment program, the authorities are also committed to undertaking a review of their public investment framework in cooperation with development partners and line ministries to identify gaps and define an action plan, (SB, December 2015).

B. Monetary and Exchange Rate Policies

Enhancing monetary policy traction and containing inflationary pressures in the context of a weak domestic and regional economic environment remain the main challenges for the NBKR.

30. Strict adherence to the newly introduced monetary policy framework, with interest rates as its operational target, is critical to enhance monetary policy traction and maintain price stability (MEFP ¶21). Keeping inflation under control will represent a challenge to the NBKR in light of the depreciation of the som, increasing dollarization and strong private credit growth. Staff argued for further tightening of monetary policy including raising the policy rate, in the case of continued inflationary pressures. The authorities were concerned that further increases in the policy rate could stifle economic activity in the context of slowing demand. Staff and the authorities agreed to: (i) maintain the policy rate positive in real terms; (ii) introduce macro-prudential measures to complement the policy rate channel (see paragraph 34); (iii) strengthen liquidity forecasting and management; (iv) improve coordination between MoF and the NBKR, to facilitate liquidity management and forecasting; and (v) further enhance the NBKR communication strategy.

31. The NBKR's intervention in the foreign exchange market will be limited to smoothing excessive volatility without resisting trends (MEFP ¶24). The NBKR is committed to greater exchange rate flexibility to smooth external adjustment and support monetary policy objectives. However, the Kyrgyz foreign exchange market is shallow, and occasional interventions are justified to smooth sharp exchange rate movements triggered by exogenous shocks. The authorities are mindful that resisting sustained trends would limit the economy's ability to absorb shocks, undermine competitiveness, and squander valuable reserves.

32. The som real exchange rate appears in line with fundamentals, while reserves are broadly adequate. The macroeconomic balance approach and purchasing power parity suggest that the som is slightly overvalued, while the external sustainability approach suggests that the som is in line with fundamentals. However, these methodologies are sensitive to assumptions and are subject to data limitations. Considering the country's large current account deficit, some adjustment over the medium term will be needed to bring it into equilibrium. Also, as PIP disbursements are expected to drop starting 2017, this should significantly help in reducing the deficit. The level of reserves is expected to remain above three months of imports during the course of the program, which is broadly adequate given the country's debt level, import dynamics, and its vulnerability to shocks (Annex V).

Text Table 5. Kyrgyz Republic: Estimated Exchange Rate Misalignment[1]

Method	Macroeconomic Balance	External Sustaibility	Purchasing Power Parity	Average
Current account norm (2018)	-7.7	-10.2		
Underlying current accout (2018)	-10.4	-10.4		
CA gap	-2.7	-0.2		-1.4
REER Misaligment	5.5	0.3	8.4	4.7
Tokarick elasticity	4.2	0.2		
CGER elasticity	6.8	0.4		

[1] Positive numbers signify overvaluation.

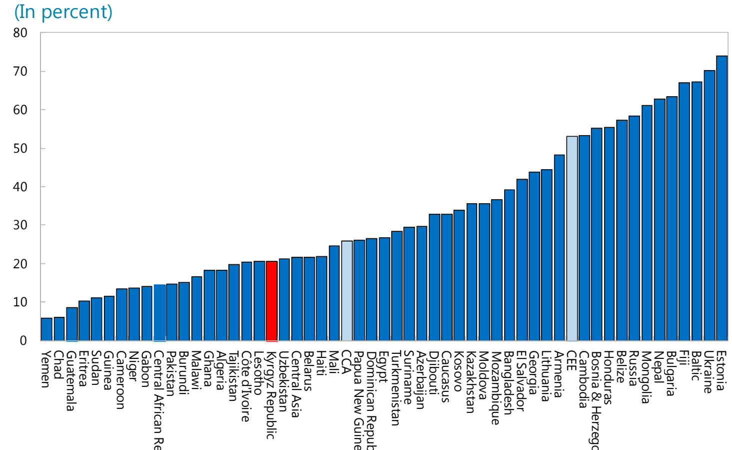
C. Financial Sector Policy

Mitigating risks in the current environment through the introduction of macro-prudential measures is a key priority. These measures will need to be supplemented by a robust bank resolution mechanism to insulate the banking sector from troubled banks.

33. The surge in credit growth in the context of high dollarization and weak economic environment is a cause of concern. The rapid growth of the ratio of loans to GDP of almost 5 percentage points signals an elevated risk of a deterioration in credit standards and underscores the importance of strengthening banking supervision, especially as regards asset classification and adequate provisioning.[5] However, with credit to GDP ratio at 21 percent, the Kyrgyz Republic remains

Private Sector Credit to GDP, 2014

(In percent)



Sources: IMF, International Financial Statistics, and desk data.
*Data for CCA countries are credit to economy.

[5] International Monetary Fund, 2011, "Toward Operationalizing Macroprudential Policies: When to Act?''.

below the CCA and CEE average. The weak growth outlook, along with the recent depreciation of the som could trigger an increase in NPLs. However, the banking sector is well capitalized and this could help it withstand shocks (Annex VI).

34. To address the banking sector vulnerabilities and enhance its resilience, the authorities are in the process of developing and implementing a set of macro-prudential measures and strengthening banking supervision. The NBKR already tightened the rules for the implementation of reserve requirement (see ¶9) in December 2014. Staff recommended further escalation of macro-prudential measures to restrict credit growth and dollarization. The NBKR was concerned that rapid tightening could stifle lending activity in the context of economic slowdown and erode the bank's profitability. It was agreed that measures will be introduced gradually and fine tuned in response to market development. To this end, the NBKR will adopt new measures by end-March (prior action) to become effective early May,[6] which aim at increasing provisioning requirements on foreign exchange loans, and introducing leverage limits on access to credit (MEFP ¶22; prior actions). The NBKR is also committed to maintaining higher reserve requirements for foreign exchange deposits than for domestic currency deposits (SB, October 2015). In addition, the NBKR will intensify onsite/offsite supervision with the objective of monitoring banks' direct and indirect exposure to foreign exchange risks.

35. The authorities will continue to implement measures aimed at strengthening the banking system arising from the 2013 FSAP update (MEFP ¶25). These include: (i) issuing a decision to harmonize minimum capital requirements by raising banks' paid-in capital in three steps by 2017 (SB, May 2015), and (ii) submitting to parliament a draft amendment to the code for administrative responsibility to increase the penalty on unlicensed foreign exchange bureaus (SB, May 2015). Finalizing the audit of DEBRA (SB, October 2015) and liquidating banks under its management remains a priority (MEFP ¶25), as many liquidation cases that DEBRA has been handling are lingering for over a decade despite the legal limit of two years.

36. The current vulnerabilities facing the banking sector call for the speedy adoption of the banking code (Annex VII). The draft code was submitted to parliament already in September 2013, but given the innovations it introduces and the complexity of issues, the code has yet to be adopted.[7] The new code is expected to modernize the bank resolution framework and enhance the independence of the NBKR. The Government and NBKR reiterated their commitment to make every effort to ensure the adoption of the banking code by early summer 2015 in a form substantially similar to the draft submitted to parliament. In the current weak economic environment, staff would have preferred to see the code promulgated before the start of the new program. However, the authorities argued that the best timing for the passage would be in June as Parliament heads into pre-election recess. This timing would also diminish the risk of the draft being

[6] Under Kyrgyz laws, NBKR's new regulations need to be posted on the NBKR website during 30 days for public discussion prior to their implementation.

[7] Furthermore, parliamentary discussions were initially delayed due to the need to translate the code to the Kyrgyz language, including finding appropriate Kyrgyz terminology.

diluted in Parliament. Staff underscored the importance of enacting the banking code for future reviews.

37. The authorities are stepping up their work on anti-money laundering and combating the financing of terrorism (AML/CFT). Following the Kyrgyz Republic's removal from the Financial Action Task Force (FATF) gray list last June, the authorities are working with parliament on a new version of the draft AML/CFT law, which was prepared with assistance from the IMF and other IFIs. A revised law consistent with the 2012 FATF standard will complement the anti-corruption framework, by helping to ensure proper detection and recovery of proceeds of corruption. With a view to implementing the 2012 FATF recommendations, the authorities have requested technical assistance from the Fund, in particular on implementing risk-based AML/CFT supervision and strengthening the operations of the Financial Intelligence Unit.

D. Structural Reforms

Institutional and structural reforms to ensure broad-based growth

38. Despite strong growth over the last few years, poverty and inequality remain a concern. The 2010 civil conflict, political instability, and banking crisis wiped out the bulk of the achievement made in fighting poverty in the early 2000s. While poverty has recently declined in rural areas, it has increased in urban areas. Overall, poverty increased to 38 percent in 2012. Of additional concern are the pronounced differences in poverty levels across regions. The Gini coefficient stood at 33.4 percent in 2011, with the poorest quintile earning 7.7 percent and the richest quintile 41.4 percent of income. Despite complex and costly social protection schemes, only one fifth of those in the poorest quintile benefit from social programs. In this respect, the authorities' program rightly focuses on rendering social spending more efficient in tackling poverty. In particular, coverage of the targeted program will be expanded and amounts adjusted relative to the poverty level, while one-off programs, cash entitlements, and allowances based on categories (early retirees, families of victims of 2010 violence, and electricity compensation) will be revisited and funneled towards the poor.

39. Enhancing the business environment is a top priority, particularly as the Kyrgyz Republic joins the EEU (MEFP ¶28). Conscious of the challenges at hand, the authorities identified key measures to improve the institutional and regulatory environment and lower perception of corruption by addressing key weaknesses identified by the World Bank latest doing business report, including starting a business, streamlining the licensing process, inspection regimes, registering property, and protecting investors. The authorities also aim to protect the Kyrgyz Republic's liberal economic regime as they join the EEU and to leverage it to achieve a competitive advantage.

40. The program will aim at introducing measures to combat corruption and enhance governance (MEFP ¶27). To this effect, the authorities were determined to pursue the enactment of the procurement law and an AML/CFT law consistent with the 2012 FATF standard. They also intend to submit a request to join the Council of Europe's Criminal Law Convention on Corruption with the aim of becoming a member of the Group of States Against Corruption (GRECO).

E. Program Modalities

41. Given the Kyrgyz Republic's protracted balance of payments needs, the authorities have requested financial support from the Fund equivalent to SDR 66.6 million (US$91.3 million, 75 percent of quota) under a three-year ECF arrangement. This would help close an expected BOP financing gap of US$401 million over the program period and is expected to be filled by traditional donors and the Fund (Text Table 6). The program is fully financed for the next 12 months. The EU and World Bank have confirmed ongoing multiyear budget support programs in addition to expected bilateral ad-hoc grants. The new ECF arrangement is expected to catalyze donors' assistance, particularly those that are conditional on an IMF program. Given the prohibition on central bank financing of the budget, constraints in domestic market financing, and the urgent budgetary need until donor disbursements commence, the authorities have requested Fund disbursements to be channeled to the budget. Loosening fiscal financing constraints is an important macroeconomic objective under the program.

Text Table 6. Kyrgyz Republic: Balance of Payments Financing, 2015–18

	2015	2016	2017	2018
	Proj.	Proj.	Proj.	Proj.
	(In millions of U.S. dollars)			
Financing Gap	171.5	76.8	120.9	64.5
Available financing	142.6	47.9	92.0	50.0
Identified budget support	142.6	47.9	42.0	0.0
World Bank	40.9	34.5	28.5	0.0
European Union	31.7	13.4	13.5	0.0
Other grants	70.0	0.0	0.0	0.0
Unidentified budget support	0.0	0.0	50.0	50.0
IMF ECF disbursement	28.9	28.9	28.9	14.5
	(In percent of GDP)			
Financing gap	2.3	0.6	1.1	0.5
Available financing	1.9	0.6	1.1	0.5
Identified budget support	1.9	0.6	0.5	0.0
World Bank	0.6	0.4	0.3	0.0
European Union	0.4	0.2	0.2	0.0
Other grants	1.0	0.0	0.0	0.0
Unidentified budget support	0.0	0.0	0.6	0.5
IMF ECF disbursement	0.4	0.4	0.3	0.2
Memorandum item:				
GDP (in millions of U.S. dollars)	7,368	7,910	8,651	9,398

Sources: Kyrgyz authorities and IMF staff estimates and projections.

42. The program will be monitored on a semi-annual basis. The ECF arrangement will have seven equal tranches and six semi-annual reviews. The first review should be completed by December 15, 2015 based on continuous and end-June 2015 quantitative performance criteria. The second review is expected to be completed by June 15, 2016 based on continuous and end-December 2015 quantitative performance criteria. Conditionality will consist of quantitative performance criteria, prior actions, and structural benchmarks (Tables 10–11). Quantitative performance criteria and indicative targets reflect the program's main policy objectives. An updated safeguards assessment is expected to be completed by the time of the first review.

43. The country's capacity to repay the fund is adequate, and the proposed access quota will not jeopardize debt sustainability (Table 9). Fund exposure is projected to peak at 2.7 percent of GDP in 2015. Total debt service to the Fund would stay at 0.3 percent of GDP starting in 2016. The authorities' track record under previous ECF arrangements provides assurances about sound policy implementation, which mitigates possible risks to the Fund.

44. Risks to the program are significant, but are manageable (Annex VIII). The Kyrgyz economy continues to be vulnerable to external shocks. Further regional slowdown, especially in Russia, could exacerbate inflationary and exchange rate pressures. Additional PIP borrowing could tilt debt assessment to high risk of distress. Absence of an agreement with Centerra could impact Kumtor's operations and have a significant impact on the Kyrgyz economy. Political pressure in the run up to this year's parliamentary elections could make it difficult to enact critical legislation.

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45. While performance under the last ECF arrangement was good, new challenges have emerged, and some key reforms have yet to be implemented. The authorities will need to implement appropriate policies to address the new emerging challenges, namely the impact of the slowdown in Russia, the higher debt levels, and the transition to the EEU. Increasing the economy's growth level and potential will also necessitate an acceleration in the implementation of the authorities' reform agenda.

46. The authorities' new Fund-supported program appropriately addresses the challenges at hand while providing some flexibility in the current difficult environment. Over the next three years, the program will aim to support a rebound in growth, a reduction in inflation, and a narrowing in fiscal and external deficits. The program also puts forward an ambitious structural reform agenda to promote robust and sustainable growth. The program introduces some flexibility, particularly in the fiscal area, which would help the Kyrgyz authorities navigate through this year's difficult economic environment.

47. The fiscal strategy appropriately balances adjustment with large public investments needs and introduces safeguards against a future borrowing surge. The pause in fiscal consolidation in 2015 is appropriate to accommodate the weak regional economic environment, whereas the consolidation efforts in 2016–17 will ensure that public debt will remain at sustainable levels. Avoiding a rapid buildup of debt in future necessitates the preparation of a sound MTDS complemented by a review of the public investment framework to ensure the efficiency of the investment program.

48. The NBKR should maintain the focus on containing inflation, while limiting foreign exchange interventions. The new monetary policy framework should remain the cornerstone of monetary policy. To this effect, the NBKR should strive to keep the policy rate positive in real terms. NBKR should also limit foreign exchange interventions to smoothing excessive volatility without resisting trends.

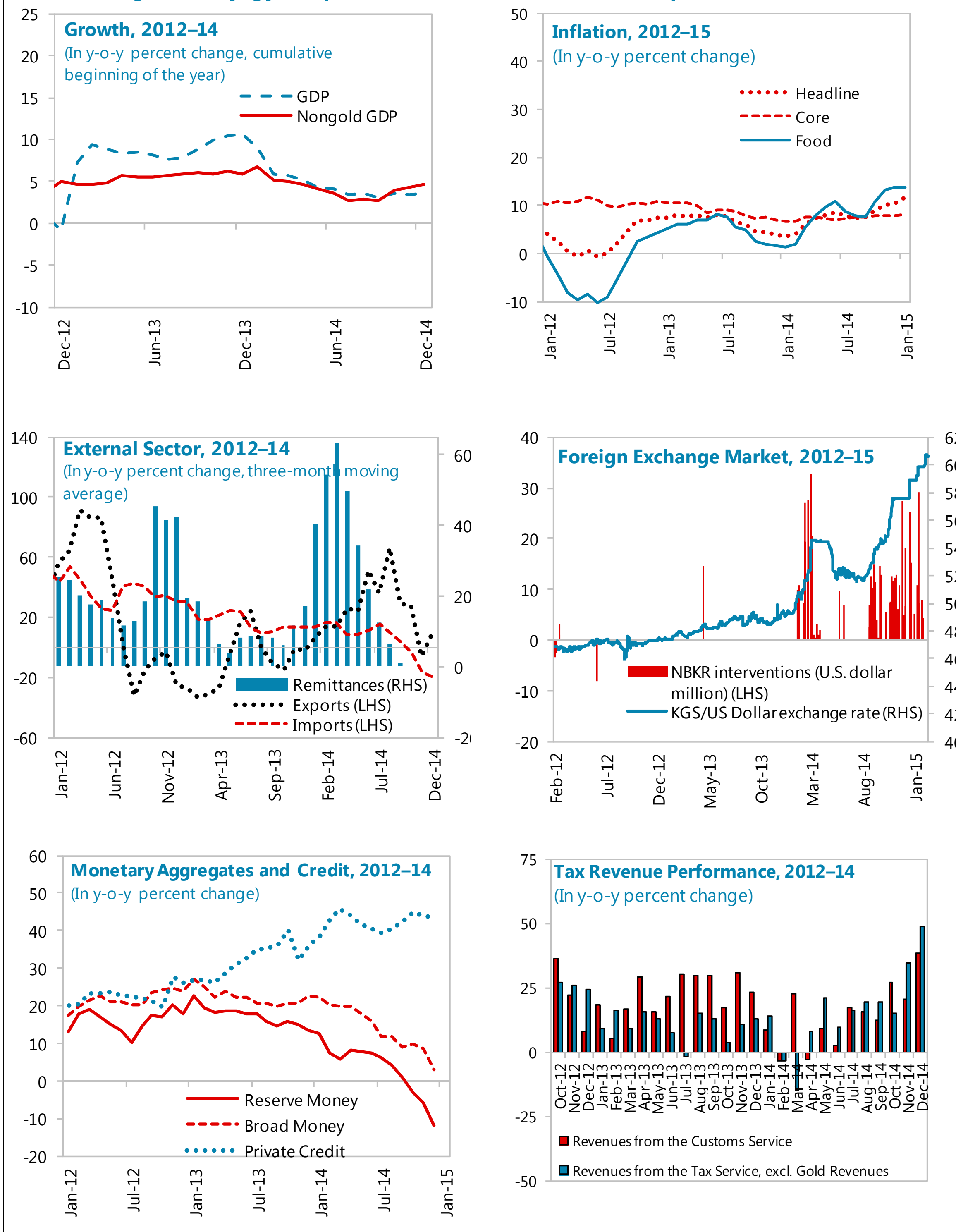
49. Maintaining a healthy banking sector will require strengthening the regulatory framework and implementing macro prudential measures. Of primary importance is the adoption of the banking code, which is key to strengthening the banking sector, particularly in the current challenging environment. While maintaining macroeconomic stability is key to dedollarization and a sound financial system, the introduction of macro prudential measures will help address banking sector vulnerabilities and help ensure reasonable credit growth and restrain dollarization. This should be supported by the strengthening of banking supervision. It will also be important to finalize the audit of DEBRA so that it as well as the banks under its receivership can be liquidated without delay.

50. Structural reforms are essential to expand the economy's potential and ensure fast and inclusive growth. The authorities should continue to improve the revenue administration, ensure effective coordination between the MoE and MoF on tax policy design, and strengthen PFM reforms. Improvement in the business environment by eliminating bottlenecks is critical to enhance private sector-led growth. Additionally, combating corruption and enhancing governance, key priorities for the authorities, are essential to build investors' confidence. To maintain its competitive advantage, the Kyrgyz Republic should strive to preserve, and capitalize on, its liberal economic regime as it joins the EEU.

51. The program is subject to some risks. These include the economy's vulnerability to external shocks, the regional slowdown, the absence of an agreement with Centerra, and the political pressure in the run up to the parliamentary elections. In addition to the country's adequate capacity to repay the Fund, the program design and conditionality safeguard against these risks. Continuous policy dialogue with the Fund will remain essential for the success of the program, along with the commitment to adjust policies as needed to achieve program objectives.

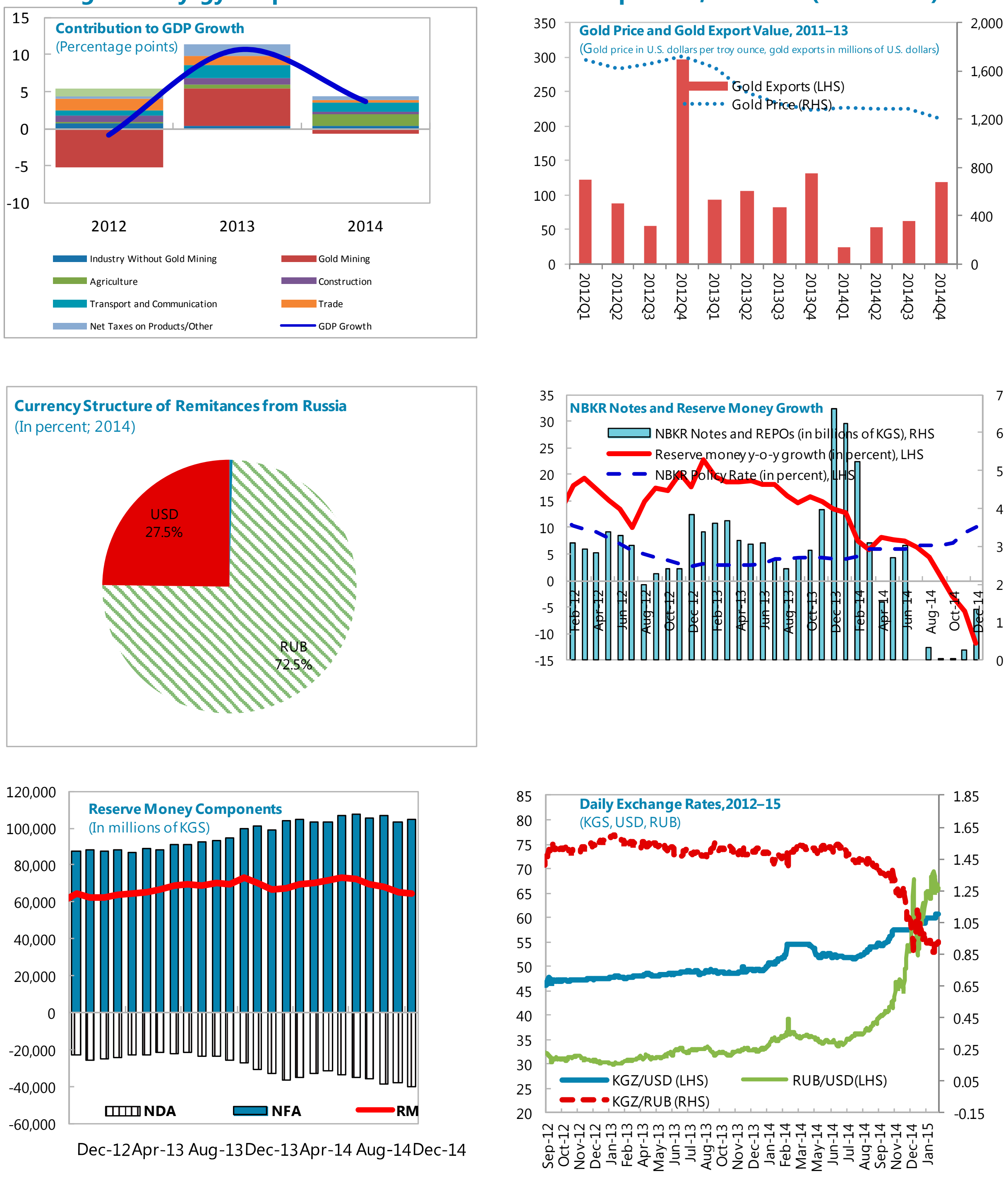
52. Staff supports the authorities' request for a three-year arrangement under the ECF with access equivalent to SDR 66.6 million (75 percent of quota). The LOI/MEFP provides a strong set of policies to pursue the objectives of the program and show the authorities' commitment. Budgetary support of ECF resources is envisaged.

Figure 1. Kyrgyz Republic: Recent Economic Developments, 2012–15



Sources: Kyrgyz authorities and IMF staff estimates and projections.

Figure 1: Kyrgyz Republic: Recent Economic Developments, 2012–15 (concluded)



Sources: Kyrgyz authorities and IMF staff estimates and projections.

Table 1. Kyrgyz Republic: Selected Social and Economic Indicators, 2012–20

I. Social and Demographic Indicators

Population (In millions, 2012)	5.6	GINI Index (2011)	33.4
Unemployment rate (official, 2011)	8.5	Life expectancy at birth in years (2011)	69.6
Poverty rate (2012)	38.0	Adult literacy rate (percent of population)	99.0
GNI per capita (2013, Atlas method, U.S. dollars)	1210	Infant mortality (per 1000 live births) (2012)	23.6

II. Economic Indicators

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Act.	Act.	Act.			Projections			
Nominal GDP (in billions of soms)	310.5	355.3	397.3	444.8	496.5	559.3	622.7	686.0	750.9
Nominal GDP (in millions of U.S. dollars)	6,605	7,333	7,402	7,368	7,910	8,651	9,398	10,149	10,892
Real GDP (growth in percent)	-0.9	10.5	3.6	1.7	3.4	5.2	5.2	5.2	5.3
Nongold real GDP (growth in percent)	5.0	5.8	4.6	2.7	2.9	4.4	5.2	5.5	5.9
GDP per capita (in U.S. dollars)	1,182	1,299	1,299	1,280	1,360	1,473	1,584	1,694	1,800
Consumer prices (12-month percent change, eop)	7.5	4.0	10.5	10.1	7.8	6.3	5.5	5.5	5.5
Consumer prices (12-month percent change, average)	2.8	6.6	7.5	10.7	8.6	7.1	5.9	5.5	5.5
Investment and savings (in percent of GDP)									
Investment	26.1	26.1	26.9	28.1	27.9	27.4	26.3	26.0	27.8
Public	7.7	7.0	5.5	9.3	10.1	9.8	8.1	7.3	8.3
Private	18.5	19.0	21.5	18.7	17.9	17.7	18.2	18.7	19.5
Savings	10.5	11.1	13.3	11.1	12.8	14.1	15.7	16.1	19.3
Public	1.9	3.3	5.7	5.3	5.9	6.5	6.9	7.3	7.6
Private	8.6	7.7	7.6	5.9	7.0	7.6	8.9	8.7	11.6
Savings-investment balance	-15.6	-15.0	-13.7	-17.0	-15.1	-13.4	-10.6	-10.0	-8.6
General government finances (in percent of GDP) 1/									
Revenue	34.9	34.4	36.0	35.0	33.8	33.9	34.0	34.2	33.9
Of which: Tax revenue	20.6	20.5	20.8	20.8	21.1	21.4	21.6	21.8	21.9
Expense	33.0	31.1	30.3	29.7	28.0	27.4	27.1	26.8	26.3
Gross operating balance	1.9	3.3	5.7	5.3	5.9	6.5	6.9	7.3	7.6
Net acquisition of nonfinancial assets	7.6	7.0	5.5	9.3	10.0	9.7	8.1	7.3	8.3
Overall balance(net lending/borrowing)	...	...	0.2	-4.1	-4.2	-3.3	-1.2	0.0	-0.7
Overall balance including onlending	-5.7	-3.8	-3.7	-7.6	-6.4	-3.9	-1.3	0.0	-0.7
Primary net lending/borrowing	...	...	1.1	-3.1	-3.4	-2.4	-0.5	0.8	0.0
Primary balance excluding foreign financed PIP loans	...	...	4.3	3.8	4.8	4.8	3.5	4.1	0.0
Primary balance excluding grants	...	...	-2.4	-7.8	-6.8	-5.3	-2.3	-1.0	-1.2
Total public debt 2/	49.0	46.1	53.0	58.8	61.2	61.0	57.7	54.9	53.5
Banking sector									
Reserve money (percent change, eop)	17.7	13.4	-11.9	1.3	10.6	9.8	8.1	8.7	6.7
Broad money (percent change, eop)	23.8	22.8	3.0	9.5	13.7	13.3	12.0	11.6	9.8
Credit to private sector (percent change, eop)	26.2	36.1	43.6	21.3	15.6	16.8	15.5	13.9	11.4
Credit to private sector (in percent of GDP)	13.5	16.1	20.7	22.4	23.2	24.0	24.9	25.8	26.2
Velocity of broad money 3/	3.2	2.9	3.2	3.3	3.2	3.2	3.2	3.1	3.1
Interest rate 4/	5.2	4.5	...	...	...	...	...	...	...
External sector									
Current account balance (in percent of GDP)	-15.6	-15.0	-13.7	-17.0	-15.1	-13.4	-10.6	-10.0	-8.6
Export of goods and services (in millions of U.S. dollars)	3,235	3,753	3,143	3,031	3,204	3,504	3,706	3,999	4,300
Export growth (percent change)	3.4	16.0	-16.3	-3.6	5.7	9.4	5.8	7.9	7.5
Import of goods and services (in millions of U.S. dollars)	6,158	6,723	6,323	6,057	6,437	6,731	6,895	7,198	7,465
Import growth (percent change)	25.7	9.2	-5.9	-4.2	6.3	4.6	2.4	4.4	3.7
Gross International reserves (in millions of U.S. dollars)	2,061	2,226	1,856	1,665	1,790	1,852	2,064	2,246	2,564
Gross reserves (months of next year imports, eop)	3.7	4.2	3.7	3.1	3.2	3.2	3.4	3.6	3.9
External public debt outstanding (in percent of GDP)	46.3	43.7	51.0	57.0	59.5	59.5	56.4	53.7	52.0
External public debt service-to-export ratio (in percent)	3.0	2.7	3.7	4.5	4.5	4.6	4.9	5.2	5.0
Memorandum items:									
Exchange rate (soms per U.S. dollar, average)	47.0	48.4	...	...	...	...	...	...	...
Real effective exchange rate (2010=100) (average)	108.8	107.6	...	...	...	...	...	...	...
Gold related tax receipts of the general government (percent of GDP)	1.5	1.0	...	...	...	...	...	...	...

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

2/ Calculated at end-period exchange rates.

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

4/ Interest rate on three-month treasury bills.

Table 2. Kyrgyz Republic: Balance of Payments, 2012–20

(In millions of U.S. dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Act.	Prel.	Prel.			Proj.			
Current account balance 1/	-1,031	-1,101	-1,013	-1,249	-1,195	-1,155	-994	-1,012	-931
Excluding transfers	-3,093	-3,383	-3,409	-3,314	-3,496	-3,514	-3,466	-3,629	-3,627
Trade balance	-2,588	-2,919	-3,026	-2,926	-3,220	-3,230	-3,204	-3,275	-3289
Exports, fob	2,247	2,695	2,184	2,150	2,155	2,364	2,487	2,650	2824
CIS countries	1,419	1,673	1,246	1,287	1,228	1,329	1,394	1,505	1643
Of which: Energy products	109	97	63	60	71	77	79	82	85
Of which: Re-exports of consumer goods	268	347	173	145	157	170	179	194	212
Non-CIS countries	828	1,022	938	863	927	1,035	1,094	1,145	1181
Of which: Gold	562	737	631	582	635	726	770	799	808
Imports, fob	4,835	5,614	5,210	5,076	5,375	5,595	5,692	5,925	6113
CIS countries	2,469	2,787	2,587	2,511	2,550	2,656	2,803	2,910	3091
Of which: Energy (including for re-exports)	1,078	1,187	1,036	907	843	876	951	984	1063
Non-CIS countries	2,366	2,827	2,623	2,565	2,825	2,939	2,888	3,015	3022
Of which: Goods for re-exports	268	347	157	102	143	155	163	176	193
Services	-336	-51	-154	-101	-12	4	15	76	124
Receipts	987	1,059	959	880	1,049	1,140	1,219	1,349	1476
Payments	-1,323	-1,109	-1,113	-982	-1,062	-1,136	-1,204	-1,273	-1352
Income	-169	-414	-230	-287	-263	-287	-277	-430	-462
Interest payments	-47	-61	-59	-104	-107	-120	-99	-165	-267
Other net income	-123	-353	-170	-183	-155	-167	-178	-265	
Current Transfers (net) 1/	2,062	2,282	2,396	2,065	2,301	2,359	2,472	2,617	2696
Of which: Private	1,998	2,154	2,087	1,774	2,005	2,265	2,424	2,569	2698
Capital Account	151	275	56	210	221	162	129	133	139
Official 2/	170	292	71	225	236	179	146	150	154
Private	-19	-17	-15	-15	-15	-17	-17	-17	-15
Financial account	595	781	727	836	1,063	1,024	1,064	1,060	1108
Commercial banks	0	-57	28	-58	30	50	50	50	80
Medium- and long-term loans (net)	324	114	517	657	573	469	431	401	410
Disbursement 1/	684	777	911	1,094	1,100	1,024	1,024	1,094	1215
Of which: Loan financed PIP (excl. energy investments financed by China)	93	81	82	296	311	310	185	102	110
Of which: Energy investments financed by China (PIP)	255	231	363	303	313	216	70	102	99
Amortization	-359	-663	-394	-437	-527	-555	-593	-692	-805
Foreign direct investment	292	626	220	287	459	505	582	608	617
Portfolio investment 3/	6	5	0	0	0	0	0	0	0
Other (including SDR allocation)	0	0	0	0	0	0	0	0	0
Net short-term flows 4/	-27	87	-43	-50	0	0	0	0	0
Errors and omissions	506	311	-135	0	0	0	0	0	0
Overall balance	221	266	-365	-203	89	31	198	181	315
Financing	-221	-266	365	203	-89	-31	-198	-181	-315
Net international reserves	-221	-266	365	176	-147	-89	-242	-211	-345
Gross official reserves (–, increase)	-200	-277	370	191	-125	-62	-212	-182	-318
IMF	-21	12	-5	-16	-22	-27	-30	-28	-27
Exceptional financing (including arrears)	0	0	0	0	30	30	30	30	30
Financing gap 1/	0	0	0	27	28	28	14	0	0
Memorandum items:									
GDP (in millions of U.S. dollars)	6,605	7,333	7,402	7,368	7,910	8,651	9,398	10,149	10892
Current account balance (percent of GDP)	-15.6	-15.0	-13.7	-17.0	-15.1	-13.4	-10.6	-10.0	-8.6
Current account balance excluding official transfers (percent of GDP) 1/	-16.6	-16.8	-17.9	-20.9	-18.8	-14.4	-11.1	-10.4	-8.5
Growth of exports of GNFS (volume, percent)	3.7	18.9	-15.4	2.6	3.6	7.2	5.5	6.5	5
Growth of imports of GNFS (volume, percent)	29.2	9.6	-4.4	7.0	3.1	3.2	1.9	3.7	2
Terms of trade (goods, percentage change)	2.3	-0.8	0.8	6.5	-1.5	-0.2	-0.2	0.1	0
Gold price (U.S. dollars per ounce)	1,669	1,411	1,266	1,277	1,283	1,295	1,311	1,333	1357
Fuel Price Index (2005=100)	194.2	191.0	176.8	103.6	116.3	124.0	128.7	130.8	n.a.
External Public Debt (in millions of U.S. dollars) 5/	3,032	3,156	3,440	4,099	4,640	5,074	5,252	5,399	5610
As percent of GDP	45.9	43.0	46.5	55.6	58.7	58.6	55.9	53.2	51.5
External public debt service-to-exports ratio 5/ 6/	3.0	2.7	3.7	4.5	4.5	4.6	4.9	5.7	5.5
Gross reserves 7/	2,061	2,226	1,856	1,665	1,790	1,852	2,064	2,246	2564
In months of subsequent year's imports	3.7	4.2	3.7	3.1	3.2	3.2	3.4	3.6	3.9

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Includes IMF and identified budget support.

2/ The capital account in 2012 includes debt write-offs.

3/ Includes return of KRDF investments abroad.

4/ Net short-term flows in 2012 partially reflect capital inflows to domestic enterprises.

5/ Public and publicly-guaranteed debt.

6/ Net of rescheduling.

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

Table 3. Kyrgyz Republic: NBKR Accounts, 2012–15

	2012	2013	2014				2015			
	Dec. Act.	Dec. Act.	Mar. Act.	Jun. Act.	Sep. Act.	Dec. Act.	Mar. Proj.	Jun. Proj.	Sep. Proj.	Dec. Proj.
					(In millions of soms)					
Net foreign assets	87,159	99,925	104,132	103,216	105,370	104,770	97,701	99,471	99,341	99,270
Net international reserves	93,046	106,116	108,958	106,935	106,488	105,936	98,866	100,636	100,507	100,435
Long-term foreign liabilities	-6,192	-6,426	-7,135	-6,812	-6,898	-7,233	-7,233	-7,233	-7,233	-7,233
Other foreign assets	305	235	2,309	3,093	5,780	6,068	6,068	6,068	6,068	6,068
Net domestic assets	-22,670	-26,785	-36,748	-31,304	-35,795	-40,298	-30,643	-27,350	-29,029	-33,990
Net claims on general government	-2,968	-6,974	-9,676	-8,503	-16,981	-18,191	-11,574	-7,505	-8,905	-19,858
Of which: Total government deposits (including foreign exchange deposits)	-5,182	-8,426	-11,149	-9,974	-18,480	-19,618	-13,002	-8,932	-10,333	-21,286
Of which: Securitized government debt	2,311	1,512	1,518	1,514	1,523	1,454	1,454	1,454	1,454	1,454
Claims on commercial banks	-3,822	-6,523	-3,211	-2,320	2,057	1,309	2,977	4,324	5,251	7,388
Of which: NBKR notes	-3,047	-6,635	-3,079	-3,011	-33	-1,326	342	1,276	1,751	3,291
Claims of other financial corporations	0	0	-2	0	-4	0	0	0	0	0
Other items net	-15,880	-13,289	-23,859	-20,481	-20,867	-23,416	-22,046	-24,169	-25,375	-21,520
Reserve money	64,489	73,139	67,384	71,912	69,575	64,472	67,058	72,121	70,313	65,279
Currency in circulation	58,252	66,954	60,409	65,614	62,528	57,075	58,676	63,106	61,524	55,488
Commercial banks' reserves	6,237	6,185	6,975	6,298	7,047	7,397	8,382	9,015	8,789	9,792
Of which: Required reserves	3,948	5,322	5,772	5,744	5,912	6,693	6,880	7,205	7,214	7,667
					(Contribution to reserve money growth, in percent) 1/					
Net foreign assets	28.7	19.8	5.8	4.5	7.4	6.6	-11.0	-8.2	-8.4	-8.5
Net domestic assets	-11.0	-6.4	-13.6	-6.2	-12.3	-18.5	15.0	20.1	17.5	9.8
Of which: Net claims on general government	-3.3	-6.2	-3.7	-2.1	-13.7	-15.3	10.3	16.6	14.4	-2.6
Reserve money	17.7	13.4	-7.9	-1.7	-4.9	-11.9	4.0	11.9	9.1	1.3
Of which: Currency in circulation	15.3	13.5	-8.9	-1.8	-6.1	-13.5	2.5	9.4	6.9	-2.5
Memorandum items:										
	17.7	13.4	5.8	7.5	0.9	-11.9	4.0	11.9	9.1	1.3
Gross International Reserves (in millions of U.S. dollars)	2,061	2,226	2,076	2,125	2,019	1,856	1,711	1,716	1,689	1,665
Net international reserves (in millions of U.S. dollars)	1,870	2,035	1,884	1,938	1,828	1,669	1,530	1,539	1,517	1,496
Exchange rate, som per U.S. dollar, end of period	47.4	49.2	54.5	52.1	54.4	58.9	59.6	60.4	61.1	61.8

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

Table 4. Kyrgyz Republic: Monetary Survey, 2012–15

	2012	2013	2014	2015			
	Dec	Dec	Dec	Mar.	Jun.	Sept.	Dec
	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.
	(In millions of soms)						
Net foreign assets	90,023	105,724	108,590	100,657	101,553	100,539	96,887
Net domestic assets	8,460	15,180	15,955	30,106	36,918	36,570	39,547
Domestic credit	38,336	48,883	61,317	71,811	77,637	77,781	77,014
Net claims on general government	-3,701	-8,308	-20,831	-14,312	-11,005	-12,390	-22,619
Credit to the rest of the economy	42,036	57,191	82,148	86,124	88,642	90,171	99,633
Of which: In foreign exchange	21,814	29,205	45,464	47,055	47,544	47,463	51,447
Other items net	-29,876	-33,704	-45,363	-41,705	-40,718	-41,211	-37,466
Broad money (M2X)	98,483	120,903	124,544	130,763	138,472	137,110	136,434
Of which:							
Broad money, excluding foreign exchange deposits (M2)	77,461	90,963	82,386	86,449	92,867	92,248	89,607
Currency held by the public	54,521	61,907	51,904	54,317	58,418	56,953	51,244
Total domestic currency deposit liabilities	22,939	29,055	30,482	32,132	34,449	35,294	38,362
	(Contribution to broad money growth, in percent) 1/						
Net foreign assets	16.1	15.9	2.4	-6.4	-5.6	-6.5	-9.4
Net domestic assets	7.7	6.8	0.6	11.4	16.8	16.6	18.9
Domestic credit	10.1	10.7	10.3	8.4	13.1	13.2	12.6
Net claims on general government	-0.8	-4.7	-10.4	5.2	7.9	6.8	-1.4
Credit to the rest of the economy	11.0	15.4	20.6	3.2	5.2	6.4	14.0
Other items (net)	-2.4	-3.9	-9.6	2.9	3.7	3.3	6.3
Broad money (M2X)	23.8	22.8	3.0	5.0	11.2	10.1	9.5
Of which:							
Broad money, excluding foreign exchange deposits (M2)	19.3	13.7	-7.1	3.3	8.4	7.9	5.8
Currency held by the public	9.2	7.5	-8.3	1.9	4.0	2.5	-3.3
Total deposit liabilities	10.1	6.2	1.2	1.3	3.2	3.9	6.3
Memorandum items:							
Broad money (M2X) (12-month change, in percent)	23.8	22.8	3.0	5.0	11.2	10.1	9.5
Credit to the rest of the economy (12-month change, in percent)	26.2	36.1	43.6	4.8	7.9	9.8	21.3
Credit to the rest of the economy (in percent of GDP)	13.5	16.1	20.7	21.2	21.3	21.0	22.4
M2X velocity 2/	3.2	2.9	3.2	3.1	3.0	3.1	3.3
M2X multiplier	1.53	1.65	1.93	1.95	1.92	1.95	2.09
Dollarization indicators (in percent)							
Loan dollarization	51.9	51.1	55.6	54.6	53.6	52.6	51.6
Deposit dollarization	47.8	50.8	59.0	58.0	57.0	56.0	55.0

Sources: Kyrgyz authorities and IMF staff estimates and projections.

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

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

Table 5. Kyrgyz Republic: General Government Finances, 2013–16, GFSM 2001 Presentation 1/

(In millions of som)

	2013	2014	2015					2016
	Year	Year	Q1	Q2	Q3	Q4	Year	Year
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	122,394	143,106	29,445	37,446	38,142	50,460	155,493	168,033
Taxes	72,842	82,639	16,963	19,858	24,524	31,016	92,361	104,620
Taxes on income, profits, and capital gains	17,221	19,635	5,189	4,705	5,628	7,542	23,064	26,158
Payable by individuals	7,545	8,542	2,085	1,890	2,261	3,030	9,266	10,520
Payable by corporations and other enterprises	11,257	8,794	2,952	2,333	2,604	3,642	11,532	13,109
Taxes on property	2,065	2,210	153	481	762	869	2,410	2,674
Property Tax	1,176	1,290	542	492	588	788	1,444	1,612
Land Tax	888	920	325	295	352	472	966	1,063
Taxes on goods and services	40,667	46,260	9,648	12,061	13,609	16,602	51,920	59,040
General taxes on goods and services	36,577	39,926	8,258	10,399	11,404	13,632	43,692	49,151
Value-added taxes	30,083	32,663	8,258	10,399	11,404	13,632	43,692	49,151
Excises	4,090	6,334	1,391	1,662	2,205	2,971	8,229	9,889
Taxes on international trade and transactions	11,886	13,771	1,402	2,436	4,503	5,820	14,160	15,883
Other Taxes	1,003	763	182	165	197	264	807	865
Social contributions	20,454	22,616	5,021	6,172	5,555	6,262	23,010	23,922
Grants	8,631	14,101	3,700	5,680	3,108	8,489	20,977	16,573
Program grants	5,615	11,376	667	2,609	0	5,342	8,618	3,003
Project grants	3,016	2,725	3,033	3,071	3,108	3,146	12,359	13,570
Other revenue	20,466	23,750	3,761	5,736	4,954	4,693	19,144	22,918
Expense	110,631	120,471	30,798	35,321	30,168	35,835	132,121	138,907
Compensation of employees	31,660	35,288	9,532	11,145	8,028	9,138	37,842	40,850
Wages and salaries	27,940	31,292	8,446	9,874	7,113	8,097	33,530	36,349
Social contributions	3,720	3,995	1,086	1,270	914	1,041	4,312	4,501
Purchases/use of goods and services	30,797	29,655	6,692	8,295	8,089	10,949	34,025	36,301
Consumption of fixed capital	0	0	0	0	0	0	0	0
Interest	2,992	3,467	957	1,030	1,050	1,090	4,128	3,738
Foreign interest	1,668	2,231	730	739	748	757	2,975	2,882
Domestic interest	1,324	1,236	227	291	302	333	1,153	856
Subsidies	2,532	3,359	1,287	1,386	223	205	3,101	3,493
To public corporations	2,532	3,359	1,287	1,386	223	205	3,101	3,493
To private entities	0	0	0	0	0	0	0	0
Grants	158	1,226	606	613	620	627	2,466	1,000
To foreign governemnts	0	0	0	0	0	0	0	0
To international organizations	158	200	54	54	54	54	215	195
To other general government units	0	1,026	552	559	566	573	2,251	806
Social benefits	42,491	47,476	11,724	12,851	12,157	13,826	50,558	53,524
Social Assistance	9,598	9,966	3,056	3,196	2,092	2,344	10,688	9,697
Social security benefits	32,894	37,510	8,668	9,655	10,065	11,482	39,870	43,828
Gross operating balance	11,762	22,635	-1,353	2,126	7,974	14,625	23,372	29,127
Net acquisition of nonfinancial assets	24,910	21,704	9,920	10,294	10,722	10,498	41,434	49,895
Acquisition of nonfinancial assets	25,046	21,753	9,951	10,326	10,753	10,528	41,557	50,033
Domestically financed	7,167	8,940	2,396	2,677	3,010	2,691	10,774	9,243
Foreign financed	17,879	12,813	7,555	7,649	7,743	7,837	30,783	40,790
Disposals of nonfinancial assets	-136	-49	-31	-32	-31	-30	-123	-138
Net lending/borrowing	-13,147	931	-11,273	-8,168	-2,748	4,128	-18,062	-20,768
Net acquisition of financial assets	3,921	24,975	-2,640	571	5,264	14,107	17,302	12,733
Domestic	3,921	24,975	-2,640	571	5,264	14,107	17,302	12,733
Currency and deposits	4,439	9,284	-6,519	-3,307	1,386	10,228	1,788	1,554
Loans	-504	15,704	3,882	3,882	3,882	3,882	15,527	11,192
Sales of equity (privatization proceeds)	-13	-13	-3	-3	-3	-3	-13	-14
Foreign	0	0	0	0	0	0	0	0
Net incurrence of liabilities	18,288	24,044	8,633	8,739	8,012	9,979	35,363	33,501
Domestic	219	-465	0	0	0	0	0	0
Foreign	18,069	24,508	8,633	8,739	8,012	9,979	35,363	33,501
Program loans	5,320	3,596	815	824	0	1,870	3,508	967
Public investment program loans	14,863	23,867	8,885	8,995	9,106	9,216	36,203	39,217
Amortization	-2,113	-2,954	-1,067	-1,080	-1,094	-1,107	-4,348	-6,683

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ GFSM 2001 classification is used from 2014 onwards. Retroactive reclassification was not possible due to lack of data.

Table 6. Kyrgyz Republic: General Government Finances, 2013–16, GFSM 2001 Presentation

(In percent of GDP) 1/

	2013	2014	2015					2016
	Year	Year	Q1	Q2	Q3	Q4	Year	Year
	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	34.4	36.0	6.6	8.4	8.6	11.3	35.0	33.8
Taxes	20.5	20.8	3.8	4.5	5.5	7.0	20.8	21.1
Taxes on income, profits, and capital gains	4.8	4.9	1.2	1.1	1.3	1.7	5.2	5.3
Payable by individuals	2.1	2.2	0.5	0.4	0.5	0.7	2.1	2.1
Payable by corporations and other enterprises	3.2	2.2	0.7	0.5	0.6	0.8	2.6	2.6
Taxes on property	0.6	0.6	0.0	0.1	0.2	0.2	0.5	0.5
Taxes on goods and services	11.4	11.6	2.2	2.7	3.1	3.7	11.7	11.9
General taxes on goods and services	10.3	10.0	1.9	2.3	2.6	3.1	9.8	9.9
Value-added taxes	8.5	8.2	1.9	2.3	2.6	3.1	9.8	9.9
Turnover and other general taxes on goods and services	1.8	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Excises	1.2	1.6	0.3	0.4	0.5	0.7	1.9	2.0
Taxes on international trade and transactions	3.3	3.5	0.3	0.5	1.0	1.3	3.2	3.2
Other Taxes	0.3	0.2	0.0	0.0	0.0	0.1	0.2	0.2
Social contributions	5.8	5.7	1.1	1.4	1.2	1.4	5.2	4.8
Grants	2.4	3.5	0.8	1.3	0.7	1.9	4.7	3.3
Program grants	1.6	2.9	0.1	0.6	0.0	1.2	1.9	0.6
Project grants	0.8	0.7	0.7	0.7	0.7	0.7	2.8	2.7
Other revenue	5.8	6.0	0.8	1.3	1.1	1.1	4.3	4.6
Expense	31.1	30.3	6.9	7.9	6.8	8.1	29.7	28.0
Compensation of employees	8.9	8.9	2.1	2.5	1.8	2.1	8.5	8.2
Wages and salaries	7.9	7.9	1.9	2.2	1.6	1.8	7.5	7.3
Social contributions	1.0	1.0	0.2	0.3	0.2	0.2	1.0	0.9
Purchases/use of goods and services	8.7	7.5	1.5	1.9	1.8	2.5	7.7	7.3
Consumption of fixed capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.8	0.9	0.2	0.2	0.2	0.2	0.9	0.8
Foreign interest	0.0	0.0	0.2	0.2	0.2	0.2	0.0	0.0
Domestic interest	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0
Subsidies	0.7	0.8	0.3	0.3	0.1	0.0	0.7	0.7
To public corporations	0.0	0.0	0.3	0.3	0.1	0.0	0.0	0.0
To private entities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0
To foreign governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
To international organizations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
To other general government units	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0
Social benefits	12.0	12.0	2.6	2.9	2.7	3.1	11.4	10.8
Social assistance	2.7	2.5	0.7	0.7	0.5	0.5	2.4	2.0
Social security benefits	9.3	9.4	1.9	2.2	2.3	2.6	9.0	8.8
Other Expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating balance	3.3	5.7	-0.3	0.5	1.8	3.3	5.3	5.9
Net acquisition of nonfinancial assets	7.0	5.5	2.2	2.3	2.4	2.4	9.3	10.0
Acquisition of nonfinancial assets	7.0	5.5	2.2	2.3	2.4	2.4	9.3	10.1
Domestically financed	2.0	2.3	0.5	0.6	0.7	0.6	2.4	1.9
Foreign financed	5.0	3.2	1.7	1.7	1.7	1.8	6.9	8.2
Disposals of nonfinancial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending/borrowing	-3.7	0.2	-2.5	-1.8	-0.6	0.9	-4.1	-4.2
Net acquisition of financial assets	1.1	6.3	-0.6	0.1	1.2	3.2	3.9	2.6
Domestic	1.1	6.3	-0.6	0.1	1.2	3.2	3.9	2.6
Currency and deposits	1.2	2.3	-1.5	-0.7	0.3	2.3	0.4	0.3
Loans	-0.1	4.0	0.9	0.9	0.9	0.9	3.5	2.3
Sales of equity (privatization proceeds)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	5.1	6.1	1.9	2.0	1.8	2.2	8.0	6.7
Domestic	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	5.1	6.2	1.9	2.0	1.8	2.2	8.0	6.7
Program loans	1.5	0.9	0.2	0.2	0.0	0.4	0.8	0.2
Public investment program loans	4.2	6.0	2.0	2.0	2.0	2.1	8.1	7.9
Amortization	-0.6	-0.7	-0.2	-0.2	-0.2	-0.2	-1.0	-1.3

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ GFSM 2001 classification is used from 2014 onwards. Retroactive reclassification was not possible due to lack of data.

Table 7. Kyrgyz Republic: Selected Financial Soundness Indicators, 2012–14

	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Capital Adequacy												
Regulatory capital to risk weighted assets	29.7	27.3	27.9	28.3	25.9	24.6	23.9	25.0	23.9	22.1	22.5	21.8
Capital to total assets	19.4	17.9	17.9	18.3	17.6	16.9	17.0	16.9	16.9	16.3	16.7	16.2
Liquidity												
Liquidity ratio	83.5	80.3	78.6	80.0	77.7	68.4	66.5	70.0	67.3	56.8	55.1	65.1
Excess reserves/total reserves	40.0	32.5	33.6	34.6	39.0	23.2	19.5	13.7	16.0	7.4	7.3	8.3
Asset quality												
Nonperforming loans/total loans	9.9	9.0	8.5	7.2	6.6	5.9	5.7	5.5	5.4	4.6	4.2	4.5
Loan-loss provisioning/nonperforming loans	60.3	62.3	61.6	64.9	63.0	62.9	63.2	59.6	59.8	61.0	61.3	58.8
Earnings and profitability												
Return on equity	15.0	16.9	19.5	18.5	13.7	15.2	17.1	18.0	15.7	16.0	18.6	18.7
Return on assets	2.7	2.7	3.3	3.0	2.3	2.5	2.7	2.8	2.4	2.4	2.7	2.6

Source: The National Bank of the Kyrgyz Republic.

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

Availability Date	Action	Associated Disbursement	Share of Access (In percent)
April 8, 2015	First disbursement based on approval of the three-year ECF arrangement.	SDR 9.514 million	14.3
October 7, 2015	Second disbursement based on completion of the first review.	SDR 9.514 million	14.3
April 6, 2016	Third disbursement based on completion of the second review.	SDR 9.514 million	14.3
October 5, 2016	Fourth disbursement based on completion of the third review.	SDR 9.514 million	14.3
April 4, 2017	Fifth disbursement based on completion of the fourth review.	SDR 9.514 million	14.3
October 3, 2017	Sixth disbursement based on completion of the fifth review.	SDR 9.514 million	14.3
April 2, 2018	Seventh disbursement based on completion of the sixth review.	SDR 9.516 million	14.3
Total		SDR 66.600 million	100.0

Source: International Monetary Fund.

Table 9. Kyrgyz Republic: Indicators of Capacity to Repay the Fund, 2015–19 1/

	2015	2016	2017	2018	2019
Fund obligations based on existing credit					
(In millions of SDRs)					
Principal	10.1	15.0	18.3	20.7	17.5
Charges and interest	0.0	0.0	0.0	0.0	0.1
Fund obligations based on existing and prospective credit					
(In millions of SDRs)					
Principal	10.1	15.0	18.3	20.7	17.5
Charges and interest	0.0	0.0	0.0	0.0	0.3
Total obligations based on existing and prospective credit					
In millions of SDRs	10.1	15.0	18.3	20.7	17.8
In millions of U.S. dollars	14.6	21.7	26.7	30.4	26.4
In percent of gross international reserves	0.9	1.2	1.4	1.5	1.2
In percent of exports of goods and services	0.5	0.7	0.8	0.8	0.7
In percent of debt service 2/	10.6	15.1	16.7	16.7	12.7
In percent of GDP	0.2	0.3	0.3	0.3	0.3
In percent of quota	11.4	16.9	20.6	23.3	20.1
Outstanding Fund credit 2/					
In millions of SDRs	135.82	139.88	140.64	129.47	111.95
In billions of U.S. dollars	0.2	0.2	0.2	0.2	0.2
In percent of gross international reserves	11.8	11.3	11.1	9.2	7.4
In percent of exports of goods and services	6.5	6.3	5.9	5.1	4.2
In percent of debt service 2/	142.8	140.8	128.5	104.5	79.8
In percent of GDP	2.7	2.6	2.4	2.0	1.6
In percent of quota	153.0	157.5	158.4	145.8	126.1
Net use of Fund credit (in millions of SDRs)	8.9	4.1	0.8	(11.2)	(17.5)
Disbursements	19.0	19.0	19.0	9.5	-
Repayments and Repurchases	10.1	15.0	18.3	20.7	17.5
Memorandum items:					
Nominal GDP (in millions of U.S. dollars)	7,368	7,910	8,651	9,398	10,149
Exports of goods and services (in millions of U.S. dollars)	3,031	3,204	3,504	3,706	3,999
Gross International Reserves (in millions of U.S. dollars)	1,665	1,790	1,852	2,064	2,246
Debt service (in millions of U.S. dollars) 2/	137.2	144.1	159.9	182.2	208.0
Quota (millions of SDRs)	88.8	88.8	88.8	88.8	88.8

Source: IMF staff estimates and projections.

1/ Assumes seven semi-annual disbursements under the ECF facility of 75 percent of quota (SDR 66.6 million) starting in April 2015. PRGT interest waived through end-2016. The following rates are assumed beyond 2016: projected interest charges between 2017 and 2018 are based on 0/0/0.25/0.25 percent per annum for the ECF, RCF, SCF, and ESF, respectively, and beyond 2018 0.25/0.25/0.5/0.25 percent per annum.

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

Table 10. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, December 2014–December 2015

	2014	2015			
	December	March	June	September	December
			QPC	Indicative Targets	QPC
Quantitative performance criteria 1/					
1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars)	1,515	1,363	1,371	1,349	1,325
2. Ceiling on net domestic assets of the NBKR (eop stock)	-26,518	-14,700	-10,127	-10,583	-14,200
3. Ceiling on cumulative overall deficit of the general government 2/	-931	11,273	19,441	22,189	18,062
4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/	0	0	0	0	0
5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	0	0
Indicative Targets 1/					
1. Ceiling on reserve money	64,472	67,058	72,121	70,313	65,279
2. Cumulative floor on state government tax collections 2/	82,639	16,963	36,821	61,345	92,361
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit and Monthly Social Benefit programs 2/	4,114	1,080	2,161	3,286	4,412

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ As defined in the TMU.

2/ Cumulative from the beginning of the year.

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

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

Measure	Timing	Macroeconomic Rationale
Prior actions		
Adopt the following regulations by end-March: (i) Increase provision requirement for new foreign exchange loans to clients earning over 75 percent of their income in foreign exchange to 2.5 percent. (ii) Increase provision requirement for new foreign exchange loans to clients earning between 50 and 75 percent of their income in foreign exchange to 5 percent. (iii) Increase provision requirement for new foreign exchange loans to clients earning under 50 percent of their income in foreign exchange to 7.5 percent.		Restrain credit growth and dollarization and thus reduce vulnerabilities in the banking sector.
Adopt debt service to income ratio of 50 percent for new consumer loans.		Restrain credit growth and dollarization and thus reduce vulnerabilities in the banking sector.
Structural Benchmarks		
I. FISCAL POLICY		
Elaborate a MTDS including the following criteria: (i) restrict borrowing to projects which enhance growth and promote social developments (ii) maintain debt at sustainable levels, and (iii) ensure that borrowing is anchored in the medium-term fiscal framework and is consistent with macroeconomic stability	End-April 2015	Improve debt management
Undertake a review of the public investment framework in cooperation with development partners and line ministries to identify gaps and then define an action plan.	End-December, 2015	Improve the efficiency, quality and cost effectiveness of the public investment process.
Submit to parliament a draft tax law on (i) strengthening the VAT by reducing the number of exemptions, (ii) gradually phasing out the sales tax; (iii) gradually limiting the use of the patent system; (iv) adopting a simplified recordkeeping and reporting requirements.	End-June, 2015	Raise tax revenues while setting up more efficient tax policy.
Draw an action plan for the reform of public sector personnel and remuneration policy to reduce the wage bill as a share of GDP.	End-December, 2015	Streamline expenditure and rationalize public sector wages.
Reorganize the institutional structure of the tax service reducing duplication of functions with respect to interregional tax service departments.	End-April, 2015	Improve tax administration efficiency.
Selecting a provider for integrating the automated national treasury system with the interbank payment system	End-September, 2015	Optimize spending by strengthening the treasury's ability to conduct prudent expenditure management.
II. FINANCIAL SECTOR		
Finalizing the audit of DEBRA.	End-October, 2015	Speed up the liquidation process of problem-banks and DEBRA.
Set higher reserve requirements for foreign exchange deposits than for domestic currency deposits.	End-October, 2015	Contain credit growth and dollarization and enhance resilience of the financial sector to currency fluctuations.
Submit to parliament a draft amendment to the code for administrative responsibility increasing the penalty for unlicensed foreign exchange activity to som 50,000 for individuals, som 100,000 for corporate officers, and som 200,000 for legal entities.	End-May, 2015	Prevent exchange rate volatility by better controlling foreign exchange bureaus.
Issue a decision to harmonize the standard minimum capital requirement by gradually raising banks' paid-in capital in three steps by 2017.	End-May, 2015	Level the playing field among banks.

Annex I. Kyrgyz Republic: Public Investment Program

The Kyrgyz Republic is undertaking an ambitious Public Investment Program (PIP) aimed at addressing critical infrastructure needs particularly in the areas of transport and energy. The program discussed during the fifth review of the previous IMF-supported program (see Box 2, Country Report No. 13/376) is rooted in the medium-term National Development Strategy and includes among others a major North-South road, the reconstruction of the heating and power plant in Bishkek, the construction and rehabilitation of power transmission lines and municipal utilities.

Projects under the PIP are financed through foreign borrowing. The proportion of the program financed by foreign borrowing will represent 7.4 percent of GDP on average over the next three years. The larger part of the loans, about half of them, are financed by China's EximBank. Other lenders include the Asian Development Bank, the World Bank, the Islamic Development Bank, and Switzerland. The Chinese financing has a grant element of 35 percent and the rest of the loans are highly concessional.

The impact of planned energy and transport sector investments on growth during the construction period is expected to be low due to high external component which often includes labor.[1] Thus in the short term, the PIP's impact will be limited to wider budget and current account deficits and debt to GDP ratios.

The PIP investments should significantly support growth over the long term but their impact will also critically depend on the implementation of necessary structural reforms. Literature provides empirical evidence that the marginal productivity of investment in electricity-generating capacity and paved roads is significantly higher than other investments in physical capital for the Kyrgyz Republic current level of infrastructure.[2] Feasibility studies carried out on behalf of the authorities suggest significant growth enhancing potential through internal rates of return ranging from 14 to 39 percent. Such returns seem generous for green field projects in those areas but are not unusual for rehabilitation projects. The growth potential is a result of the projects' effect of alleviating energy shortages that the country is currently facing, reducing infrastructure bottlenecks and generating new opportunities. For example, the energy sector has significant growth enhancing potential due to large exports prospects in South Asia and relatively low cost of power generation. However, the sector faces several challenges in terms of financial viability and network maintenance that the prospective increase in tariff should help settle. Nevertheless, according to the World Bank, an improvement of the governance of the sector is also necessary.

[1] It is expected than only 10 percent of the disbursed financing from China will be spent domestically (the rest will be used to purchase imported equipment and labor).

[2] Candelon B., Colletaz G., Hurlin C. (2013), "Network Effects and Infrastructure Productivity in Developing Countries", Oxford Bulletin of Economics and Statisticss, 75(6), 887–913.

In that regard, to ensure the efficiency and the close follow up of PIP projects, it is important that the authorities undertake a review of the public investment framework in cooperation with development partners to identify gaps and then define an action plan, including a transparent mechanism and guidelines for independent appraisal, physical monitoring, and evaluation of public investments.

Annex II. Kyrgyz Republic: Impact of the Accession to the Eurasian Customs Union

The Kyrgyz Republic signed the agreement to join the EEU on December 23, 2014 with membership coming into effect on May 9, 2015. Two major protocols remain to be signed and the list of exempted goods from custom duties has yet to be finalized. However, the authorities have implemented a significant part of the roadmap including the enactment of 34 relevant laws. According to the agreement with the other EEU members, the Kyrgyz Republic will be entitled to 1.9 percent share of the total EEU customs revenue.

The impact of joining the EEU on the volume of trade remains difficult to assess. Authorities estimates that the average tariff on import of goods should significantly increase following the accession, from 5.1 percent to 10.4 percent. This level should progressively decrease as Russia complies with its agreement with the WTO to reduce its customs tariff to an average of 7.8 percent by 2017. However, the accession to the EEU comes with the abolition of simplified customs procedures with several neighboring countries including China, under which customs duties were calculated based on the volume of trade rather than its value. In this context, the value of imports is probably significantly under-estimated in authorities' statistics. Moreover, the change of procedure per se could have a sizeable impact if the Kyrgyz Republic loses its comparative advantage as a re-export market from a Chinese perspective.

Short-term effects of the accession on growth and inflation are expected to be mixed. The change of customs tariffs and procedures should impact negatively the import, processing and re-export related activities, a sector employing about 22 percent of the working population. Moreover, the country will not benefit from trade creation with the current members of the Union since it already currently enjoys a free trade regime with them. In this context, a rise of the consumer price index is expected, which could be further fueled by supply shortages.

Medium-term prospects are, however, more positive. A Russian grant of US$200 million to assist in preparation for EEU membership and the establishment of a US$1 billion Russia-Kyrgyz development fund should mitigate the short-term negative impact of the EEU accession on growth. The grant could help resolve the issue of elimination of customs control for goods and transport vehicles moving across the Kyrgyz-Kazakhstani part of the state border. The grant will also be used to equip air check points in Manas and Osh, car check points in Irkeshtam, Torugart, and set up test laboratories. The fund's charter capital of US$500 million is to be paid by Russia, and the fund will borrow another US$500 million on concessional terms from Russia. The first US$100 million were received in December 2014.

Annex III. Kyrgyz Republic: Spillovers from Russia

The Kyrgyz Republic has strong economic ties with Russia and the region. About half of the trade is with former CIS countries, and Russia is an important source of employment for about one-fifth of the Kyrgyz population. The slowdown in Russia did not impact growth in 2014, but is expected to slow down growth by 2 percent in 2015 and 2016. Spillovers from Russia to the Kyrgyz Republic operate through a number of channels:

- The ***exchange rate-related spillovers*** are the most prominent so far. The som depreciated by 24.2 percent against the U.S. dollar between November 2013 (onset of Ukraine crises) and February 2015, largely following the movement of Russian ruble against the U.S. dollar. While the som is not pegged against the ruble, speculation and expectations based on deep economic ties between the two countries played an important role in the depreciation. The NBRK intervened to avoid excessive movements, but markets continued to react quickly to ruble developments. As a result of the depreciation, inflation rose, and the REER appreciated.

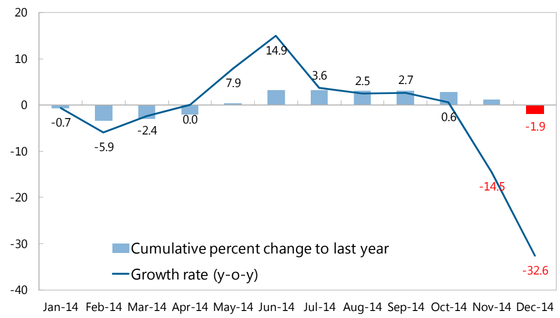
- ***Remittances***, which are estimated at about 30 percent of GDP, represent an important channel, particularly from Russia. During 2014, Russia was the source of 97 percent of remittances inflows, of which 75 percent were in ruble. So far, the inflow of remittances from Russia has proven to be more resilient compared to other CCA countries, with the decline starting only last November. In 2014, the U.S. dollar value of these remittances dropped by only 1.9 percent, while ruble inflows were 22 percent higher than in 2013. This year, remittances inflows are expected to decline by 15 percent, which would have an impact on growth through slowdown in private consumption (1 percent slowdown in remittances can slow down growth by up to 0.15 percent).

- ***Trade***, both domestic and external, started to slowdown in 2014, as a result of the slowdown in Russia and the region. Trade contributed 1.4 percent to GDP growth, which is below average contribution of 2.2 percent over the last three years. Nongold exports declined by US$400 million (20 percent of 2013 exports), but the majority of it is driven by a decline in re-exports to CIS countries (shuttle trade) and re-exports of oil products. The drop in nongold exports was offset by equal decline in imports (US$400 million or 8 percent of total imports), so impact on the current account was neutral in 2014.

- Spillovers through the ***financial sector*** and ***FDI*** are not pronounced so far. The Kyrgyz financial system is rather isolated from global and regional markets. There is only one Russian-owned bank, which is well capitalized, and does not depend on financial assistance from Russia. As to FDI, according to NBKR's statistics, about 10 percent (or US$60 million) came from Russia in 2013. Given Russia's commitments to the Kyrgyz Republic as part of the EEU, FDI will most likely not be affected. In fact, it could even increase if Gazprom investments to Kyrgyz Gas and the financing for the hydropower project Kambarata materialize.

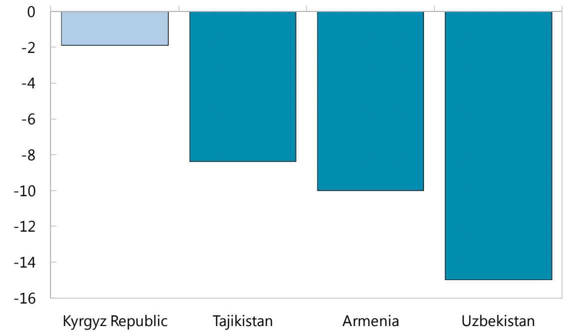
Figure 1. Kyrgyz Republic: Spillovers from Russia

Remittance Inflows from Russia in 2014
(Percent change, year-on-year)



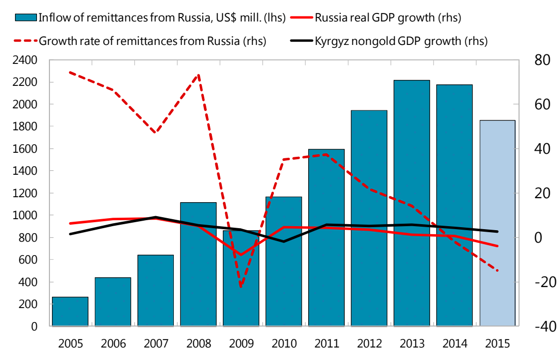
Sources: Kyrgyz authorities and IMF staff calculations.

Cross Country Comparison of Remitances Inflow from Russia
(Percent change, 2014 to 2013)



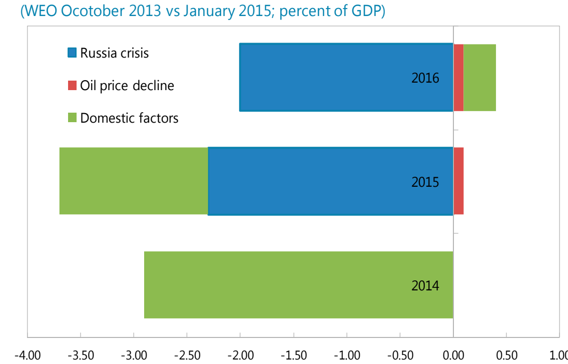
Source: Kyrgyz authorities.

GDP and Remittances, 2005–15



Sources: The NBKR and IMF staff calculations.

GDP Revisions
(WEO Ocotober 2013 vs January 2015; percent of GDP)



Sources: Kyrgyz authorities and IMF staff calculations.

Annex IV. Kyrgyz Republic: Debt Sustainability Analysis[1]

Since the last debt sustainability analysis (DSA) update was published in December 2013,[2] the debt burden indicators for the Kyrgyz Republic have deteriorated. The faster-than-expected disbursement of Public Investment Related (PIP)-related loans (most financed from China), the depreciation of the som and the regional economic slowdown resulted in a significant rise of the external public debt. On balance, the Kyrgyz Republic continues to face a moderate risk of debt distress but risks have increased. A continued fall of the som, in particular, could significantly worsen the debt outlook. Stress tests suggest that the country is vulnerable to large exogenous shocks calling for the strengthening of debt management within a credible and prudent macro-fiscal framework. Fiscal consolidation and prudent use of concessional loans, in particular for large-scale public investment programs, remain key to keeping the debt outlook sustainable.

Background

The Kyrgyz Republic's nominal stock of public and publicly guaranteed (PPG) external debt, the bulk of the country public debt,[3] declined from about 100 percent of GDP in 2003 to 45 percent in 2008. This decline was mainly the result of acceleration in the pace of economic growth and a nominal appreciation, but also reflected firm fiscal discipline and Paris Club support. The Kyrgyz Republic had two debt restructuring agreements with the Paris Club, the first one in December 2002 under Houston terms and the second one in March 2005 under the Evian approach.

The nominal stock of PPG external debt significantly increased in 2009–10 to reach 56 percent of GDP in 2010. This increase resulted from the international financial crisis and domestic political instability which negatively impacted real growth but also from an uptick in external borrowing to finance infrastructure development and a crisis-related fiscal deficit.

By the end 2013, the nominal PPG external debt in percent of GDP had, however, come back to its 2008 level at 43.7 percent thanks to a strong economic recovery in 2011 and 2012, despite the launch of large public investment projects[4] to improve Kyrgyz infrastructure.

The debt outlook, however, deteriorated in 2014, with the nominal PPG external debt to GDP ratio reaching 51.0 percent. This degradation is essentially due to three factors: (i) lower growth due to the regional economic slowdown and a drop in gold production; (ii) the depreciation of the som against the dollar (following the weakening of the ruble and the tenge); and (iii) the

[1] Prepared by the staffs of the International Monetary Fund and the International Development Association.

[2] See The Kyrgyz Republic: Fifth Review Under the Three-Year Arrangement Under the Extended Credit Facility, and Request for Modification of Performance Criteria, CR 13/376

[3] The authorities committed to clarify the exact scope of the SOE's debt inclusion in the public debt by mid-March. The 10 largest SOEs will be included in the public sector.

[4] The PIP targets essentially the sectors of energy and transport and is financed by both FDI and concessional loans (see Annex I).

faster-than-expected disbursement of the Chinese part of the PIP related loans. The authorities initially budgeted total disbursements in 2014 to represent US$331 million, an amount close to 2013 disbursements, whereas they actually reached US$445 million, of which US$363 million came from EximBank China. Currently, the present value (PV) of the PPG external debt is equivalent to US$2.4 billion (36 percent of GDP), of which 44 percent is owed to international financial institutions (IFIs), and the remaining 56 percent to bilateral creditors.

Public domestic debt represented only 3.8 percent of the total public debt in 2014. This share has decreased continuously over the eight past years due to operating fiscal surplus that more than compensated for the increase in domestically financed capital expenditures.

Underlying DSA assumptions

The macroeconomic assumptions reflect the framework underlying the prospective ECF arrangement and World Bank and IMF staff projections through 2035[5].

The framework assumes the implementation of sound macroeconomic policies—including fiscal consolidation over the medium term after the deterioration of the overall balance in 2015 and prudent debt management as the basis for sustaining growth. Near medium-term growth is likely to be hindered by the regional slowdown and the uncertainties related to the accession to the Eurasian Economic Union. Over the medium term, stronger growth would be supported by the impact of the current infrastructure investments and stable gold production. Longer term growth will be underpinned by firm implementation of structural reforms to remove impediments to private investment, stimulate economic diversification, and improve the business climate, including financial stability and deepened financial intermediation. The energy sector, which has large potential, is also envisioned to add positively to growth in the long run. The framework features average medium-term GDP growth of 4.4 percent per year and average long-term growth over 2020–35 similar to the previous DSA of about 5 percent (see Text Table 1 and Box1).

Text Table 1. Kyrgyz Republic: Selected Indicators, 2013–outer years

	2013	2014	2015	2016	2017	2018	Long term
	Act.	Est.			Proj.		
Real GDP growth							
Current DSA	10.5	3.6	1.7	3.4	5.2	5.2	5.2
Previous DSA	7.8	6.5	5.3	5.0	5.0	5.0	5.0
Overal fiscal balance (percent of GDP)							
Current DSA	-3.6	-3.7	-7.6	-6.5	-3.9	-1.3	-2.5
Previous DSA	-5.2	-4.1	-2.6	-2.3	-2.5	-2.5	-2.5
Current account balance (percent of GDP)							
Current DSA	-15.0	-13.7	-17.0	-15.1	-13.4	-10.6	-7.9
Previous DSA	-10.4	-15.7	-15.1	-12.4	-9.8	-5.5	-4.3

Sources: Kyrgyz authorities and IMF staff estimates and projections.

[5] With a CPIA of 3.58, the country is assessed as a medium performer in terms of policy performance.

The main difference relative to the 2013 DSA update reflects new information regarding the authorities' infrastructure improvement plan. In 2013, only part (US$200 million) of the US$800 million Chinese PIP loans were included in the analysis. Considering the high and faster than expected execution rate of these loans in 2014,[6] the full amount of currently estimated disbursements of about US$830 million has been integrated in the DSA (see Text Table 2). These loans concern essentially two projects, the rehabilitation of a heating and power plant in Bishkek and the construction of a North-South alternative highway. More generally and contrary to the previous exercise, this DSA does not include assumptions of under execution of any of the PIP disbursements. Overall the total amount of PIP loans disbursements for the period 2015–19 is expected to represent US$1,930 million.

Text Table 2. Kyrgyz Republic: Comparison of Debt Ratio, 2013–19

	2013 Act.	2014 Est.	2015	2016	2017	2018	2019 Proj.
PPGE debt to GDP ratio							
Current DSA	43.7	51.0	57.0	59.5	59.5	56.4	53.7
Previous DSA	45.3	45.1	45.0	44.3	41.5	39.7	38.1
Public debt to GDP ratio							
Current DSA	46.1	53.0	58.8	61.2	61.0	57.7	54.9
Previous DSA	48.0	48.3	48.1	48.7	46.4	44.9	44.3

Sources: Kyrgyz authorities and IMF staff estimates and projections.

While there are many uncertainties on the economic impact of these large investments on aggregate output, empirical evidence suggests that the marginal productivity of electricity-generating capacity and paved roads is significantly higher than other infrastructure investments.[7] The efficiency of investments over the short term is probably not high given the large import content of the PIP resulting in modest GDP growth over the medium term. However, these investments have the potential to significantly contribute to longer-term growth. The energy sector has significant growth potential due to favorable export prospects and relatively low cost of power generation. However, the sector faces numerous challenges in terms of financial viability and network maintenance that the prospective increase in tariffs and the reforms in the governance of the sector should help settle. According to the authorities' feasibility study, the internal rate of return of the North-South road would significantly exceed its financing costs. Despite the strategic importance of these projects, an independent appraisal and physical monitoring of these projects to ensure their viability would be useful. More specifically, Public Investment Management (PIM) practices need to be upgraded, including by consolidating PIM responsibilities, putting in place transparent mechanisms and guidelines for screening, independent appraisal, monitoring, and evaluation.

[6] The budget 2014 included Chinese PIP loans disbursements of US$200 million whereas US$360 million were disbursed.

[7] Candelon B., Colletaz G., Hurlin C. (2013), "Network Effects and Infrastructure Productivity in Developing Countries", Oxford Bulletin of Economics and Statistics, 75(6), 887–913.

Box 1. Kyrgyz Republic: Macroeconomic Assumptions for 2015–35

Real GDP growth: After dropping in 2014 and 2015, due to the regional slowdown, inclement weather affecting the energy and agriculture sectors in 2014, and lower gold exports in 2015, real GDP is expected to gradually recover to about 5 percent in the medium-long terms. Growth in the medium term would be supported by infrastructure and energy investments, strong private sector credit growth and by new mining projects. Long term growth would be generated by firm implementation of structural reforms to remove impediments to private investment, stimulate economic diversification, and improve the business climate.

Public investment: The ratio of capital expenditure is projected to reach 10.1 percent of GDP in 2016 due to large disbursements associated with the PIP loans. It should however gradually decline over the medium term to represent about 7–8 percent of GDP.

Current account deficit: The current account deficit is expected to widen in 2015 to reach 17 percent of GDP due to lower gold exports, the import content of the energy and transport projects and the drop of remittances in the context of the regional slowdown and the ruble depreciation. Both export and import growth is expected to decelerate as the transit trade declines following the accession to the Eurasian Customs Union. The current deficit level should progressively decline over the medium term but remain relatively high during the implementation of the PIP. It should be further reduced over the long term in line with the diversification of the economy and the fiscal consolidation.

FDI: FDI is expected to rebound over the medium term after its significant decrease in 2014 and projected decline in 2015, to a level close to the historical average of 6.2 percent of GDP. After the implementation of the main public infrastructure projects, their share as a percentage of GDP should however decrease to represent about 3 percent of GDP over the long run.

Inflation: Inflation is expected to remain above 10 percent in 2015 and then gradually decrease to around 7–8 percent per annum over the medium term and to about 4 percent over the long run.

Fiscal deficit: The primary deficit is expected to widen in 2015 to reach 6.7 percent of GDP owing to increasing capital expenditures. However expenditures are expected to decline over the medium term enabling the primary deficit to stabilize at about 1.2 percent of GDP in the long run.

Financing: Over the medium term, the authorities are expected to rely on FDI and external concessional borrowing to finance the infrastructure projects. The average grant element of new external borrowing is projected to fall from 41 percent to 24 percent over the projection period, as the Kyrgyz Republic gradually moves away from concessional borrowing toward non-concessional borrowing from bilateral and commercial creditors. Meanwhile, the share of domestic financing is expected to gradually increase over the long term. Remittances are expected to remain a major source of financing but their share in percent of GDP is expected to decrease over the long term reflecting the diversification of the economy. The decline should be significant in 2015 due to the regional slowdown and more gradual over the longer term (remittances should represent around 20 percent on average on the long term). Government deposits (around 4–5 percent of GDP at end-2014) are also expected to be reduced slightly and finance the fiscal deficit.

External debt sustainability analysis

The baseline scenario points to a deterioration of the external debt burden over the medium term in comparison with the previous DSA. The present value (PV) of public and publicly guaranteed (PPG) debt to GDP and remittances ratio is now expected to reach 32.4 percent in 2016, a level much closer to the indicative threshold of 36 percent than it used to be (see Table 1 and Figure 1).[8] However, the PV of the debt to exports and remittances ratio and the PV of debt to revenue, at 62 and 133 respectively in 2016, are expected to remain well below their policy-based indicative thresholds.[9]

The debt service is expected to remain manageable throughout the DSA horizon. This reflects the high concessionality of both the outstanding multilateral debt and the assumed new borrowing over the medium term. The debt service to exports and remittances is expected to increase slightly over the projection period from 2.9 percent in 2015 to 4.4 percent in 2035. The debt service to revenue ratio would also slightly increase, from 6.2 to 8.1 percent.

The debt ratios are consistently lower in the historical scenario than the baseline over the medium term. This is because the non-interest current account deficit has been lower on average from 2005 to 2014 (reflecting a strong consolidation effort until 2008) than projected for the period 2015–20 in the baseline scenario, and the net inflows of FDI higher. Thus, applying the historical numbers leads to lower gross financing needs and a lower present value of external public debt.

Stress tests, however, show that the Kyrgyz Republic's external debt is vulnerable to large shocks or substantially less favorable assumptions. The PV of the debt to GDP and remittances ratio rises above the relevant indicative threshold over the medium term under four of the six stress tests: (i) when the exports grow at one standard deviation below their historical average over 2016–17; (ii) when the net non-debt creating inflows over 2016–17 are one standard deviation below their historical average; (iii) when the exchange rate depreciates by 30 percent in 2016 relative to the baseline; and (iv) under a shock over 2016–17 combining lower GDP and export growth, a decline in the U.S. dollar GDP deflator and lower net non-debt creating inflows (see Table 2). The shock on the exchange rate in particular would lead to a significant and protracted breach of the indicative threshold over the medium term. However, none of the other debt burden indicators breaches its indicative threshold under similar stress tests.

[8] The use of the remittances-adjusted thresholds is justified by the large size of remittances: they represented more than 30 percent of the GDP and more than 60 percent of the exports of goods and services on average over the three past years.

[9] The relevant thresholds are 120 percent for the PV of the debt to exports and remittances ratio and 250 percent for the PV of the debt to revenue ratio.

Public debt sustainability analysis

Domestic public debt is projected to increase and will play a more important role in financing the budget deficit in the medium and long term. Domestic debt accounted for about 3.8 percent of total public debt at end-2014 while it is expected to grow to 39 percent of total public debt by 2035 as domestic financial markets deepen. Currently, there is no evidence that domestic debt is crowding out private investments and the gradual increase in domestic public debt should ensure that this remains so.

The Kyrgyz Republic's total public debt outlook is projected to be manageable in the medium and long terms. Under the baseline scenario, the PV of public debt to GDP ratio would increase slightly from 38.0 percent by end-2014 to 42.2 in 2016 following disbursements for the public infrastructure projects. It would then decline over the medium term reflecting fiscal consolidation and stabilize at about 42 percent (see Table 3 and Figure 2).

Alternative scenarios and stress tests show that the Kyrgyz Republic's public debt remains highly sensitive to shocks that reduce real GDP growth or a failure to reduce the primary deficit over the medium term from the 2015 level, which result in unsustainable debt trajectories. Under stress tests and alternative scenario, the PV of the debt to GDP ratio in 2035 could increase to about 90 percent under the permanent real GDP growth shock scenario and to about 100 percent under the fixed (at 2015 level) primary deficit scenario (see Table 4). Fixing the primary deficit and the GDP growth at their historical average would also lead to a breach of the indicative threshold of 56 percent with a debt to GDP ratio reaching 65 percent in 2035.

Conclusion

While the Kyrgyz Republic's external public debt has significantly increased in 2014, the country is assessed to remain at a moderate risk of debt distress. All PV-based external indicators in the baseline are projected to stay below their indicative thresholds over the DSA horizon. Moreover, the debt service burden would remain well below the threshold reflecting the high concessionality of external debt. However, stress tests show that the external public debt indicators could significantly breach the threshold in case of a large depreciation of the som or a significant reduction of non-debt creating inflows. In the context of the regional slowdown, these scenarios are not unlikely: the som depreciated over 2014 by around 20 percent against the dollar; the remittances slowed down; and FDI decreased. This situation requires a careful management of the external public debt. The authorities broadly agreed with these results and committed to monitor it more closely.

Staff recognizes that the country has large infrastructure needs; however, safeguards are needed to keep debt at sustainable levels. It would be important to ensure that the limited fiscal space is used for viable projects ant that market risks, including exchange rate risk, are accounted for, so as to avoid the buildup of an unsustainable debt burden. The authorities should: (i) put in place a transparent mechanism and guidelines for independent appraisal, physical monitoring, and evaluation of public investments; (ii) consolidate public finances; and (iii) borrow only on concessional terms. The set up of a medium-term debt management strategy should help the authorities to prioritize their investments to ensure public debt sustainability.

These conclusions remain valid when adding the domestic public debt to the analysis. Total public sector debt seems manageable in light of the dynamics of the domestic debt stock but its evolution is highly sensitive to a shock on GDP growth and to the path of fiscal consolidation.

Table 1 .Kyrgyz Republic: External Debt Sustainability Framework, Baseline Scenario, 2012–35 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical [6/] Average	Standard [6/] Deviation	Projections									
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-2020 Average	2025	2035	2021-2035 Average
External debt (nominal) 1/	**80.2**	**72.9**	**81.2**			**88.3**	**89.1**	**87.0**	**84.3**	**81.7**	**79.6**		**64.2**	**53.7**	
of which: public and publicly guaranteed (PPG)	46.3	43.7	51.0			57.0	59.5	59.5	56.4	53.7	52.0		42.7	31.7	
Change in external debt	3.3	-7.3	8.3			7.1	0.9	-2.1	-2.7	-2.6	-2.1		-1.9	-0.1	
Identified net debt-creating flows	6.5	-1.5	10.0			11.8	6.5	3.3	0.3	-0.1	-1.2		-0.5	1.0	
Non-interest current account deficit	**14.9**	**14.2**	**12.9**	**7.6**	**6.6**	**15.5**	**13.7**	**12.0**	**9.5**	**8.3**	**6.1**	**10.9**	**4.4**	**3.5**	4.2
Deficit in balance of goods and services	44.3	40.5	43.0			41.1	40.9	37.3	33.9	31.5	29.1		23.8	19.4	
Exports	49.0	51.2	42.5			41.1	40.5	40.5	39.4	39.4	39.5		40.9	42.5	
Imports	93.2	91.7	85.4			82.2	81.4	77.8	73.4	70.9	68.5		64.8	61.9	
Net current transfers (negative = inflow)	-31.2	-31.1	-32.4	-28.1	3.6	-28.0	-29.1	-27.3	-26.3	-25.8	-24.7	**-26.9**	-21.1	-16.9	-19.9
of which: official	-1.0	-1.7	-4.2			-3.9	-3.7	-1.1	-0.5	-0.5	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	1.9	4.8	2.3			2.5	2.0	1.9	1.9	2.6	1.8		1.7	1.0	
Net FDI (negative = inflow)	**-4.4**	**-8.5**	**-3.0**	**-6.2**	**3.0**	**-3.9**	**-5.8**	**-5.8**	**-6.2**	**-6.0**	**-5.7**	**-5.6**	**-4.2**	**-2.9**	-3.9
Endogenous debt dynamics 2/	**-4.0**	**-7.1**	**0.1**			**0.1**	**-1.4**	**-2.8**	**-3.1**	**-2.4**	**-1.6**		**-0.7**	**0.3**	
Contribution from nominal interest rate	0.7	0.8	0.8			1.5	1.4	1.4	1.1	1.6	2.4		2.3	2.9	
Contribution from real GDP growth	0.6	-7.6	-2.6			-1.3	-2.8	-4.2	-4.1	-4.0	-4.0		-3.0	-2.5	
Contribution from price and exchange rate changes	-5.4	-0.4	1.9			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-3.2**	**-5.8**	**-1.8**			**-4.7**	**-5.7**	**-5.4**	**-3.0**	**-2.5**	**-1.0**		**-1.4**	**-1.1**	
of which: exceptional financing	0.0	0.0	0.0			0.0	-0.4	-0.3	-0.3	-0.3	-0.3		-0.2	0.0	
PV of external debt 4/	...	...	66.2			70.3	70.2	68.2	66.7	65.2	63.9		52.1	44.6	
In percent of exports	...	...	155.8			170.8	173.4	168.3	169.0	165.4	161.9		127.2	104.9	
PV of PPG external debt	**...**	**...**	**36.0**			**39.0**	**40.6**	**40.6**	**38.8**	**37.2**	**36.3**		**30.6**	**22.6**	
In percent of exports	**...**	**...**	**84.8**			**94.8**	**100.2**	**100.3**	**98.3**	**94.3**	**92.0**		**74.7**	**53.2**	
In percent of government revenues	**...**	**...**	**110.9**			**128.9**	**133.1**	**130.9**	**120.7**	**114.6**	**111.1**		**95.0**	**70.9**	
Debt service-to-exports ratio (in percent)	**13.2**	**19.7**	**15.1**			**18.4**	**20.5**	**20.0**	**19.5**	**22.1**	**25.4**		**25.0**	**29.7**	
PPG debt service-to-exports ratio (in percent)	**4.5**	**7.7**	**3.7**			**4.5**	**5.4**	**5.4**	**5.7**	**6.0**	**5.7**		**6.2**	**6.1**	
PPG debt service-to-revenue ratio (in percent)	**6.9**	**12.3**	**4.8**			**6.2**	**7.2**	**7.1**	**7.0**	**7.2**	**6.9**		**7.9**	**8.1**	
Total gross financing need (Billions of U.S. dollars)	1.1	1.2	1.2			1.4	1.3	1.2	1.0	1.1	1.1		1.7	4.1	
Non-interest current account deficit that stabilizes debt ratio	11.6	21.5	4.6			8.4	12.9	14.1	12.3	10.9	8.3		6.3	3.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	-0.9	10.5	3.6	4.1	4.0	1.7	3.4	5.2	5.2	5.2	5.3	4.3	4.9	5.1	5.2
GDP deflator in US dollar terms (change in percent)	7.5	0.4	-2.6	9.1	12.1	-2.1	3.8	4.0	3.3	2.7	2.0	2.3	2.0	2.0	2.0
Effective interest rate (percent) 5/	1.0	1.2	1.1	1.1	0.3	1.8	1.7	1.7	1.3	2.1	3.1	2.0	3.7	5.7	4.4
Growth of exports of G&S (US dollar terms, in percent)	3.4	16.0	-16.3	13.5	20.3	-3.6	5.7	9.4	5.8	7.9	7.5	5.4	7.2	7.8	7.8
Growth of imports of G&S (US dollar terms, in percent)	25.7	9.2	-5.9	21.4	25.4	-4.2	6.3	4.6	2.4	4.4	3.7	2.9	6.3	6.8	6.5
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	41.2	40.8	42.2	44.2	42.6	42.8	42.3	36.3	23.8	32.0
Government revenues (excluding grants, in percent of GDP)	32.4	32.0	32.5			30.2	30.5	31.0	32.1	32.4	32.7		32.2	31.9	32.0
Aid flows (in Billions of US dollars) 7/	0.3	0.3	0.3			0.7	0.6	0.6	0.4	0.4	0.4		0.4	0.6	
of which: Grants	0.2	0.2	0.3			0.3	0.3	0.3	0.2	0.2	0.1		0.2	0.2	
of which: Concessional loans	0.1	0.1	0.1			0.3	0.3	0.3	0.2	0.2	0.3		0.3	0.3	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			8.4	6.8	5.7	3.4	3.1	2.6		2.1	1.6	1.9
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			61.6	57.6	59.9	63.4	63.4	59.0		52.6	36.7	47.3
Memorandum items:															
Nominal GDP (Billions of US dollars)	6.6	7.3	7.4			7.4	7.9	8.7	9.4	10.1	10.9		15.8	31.1	
Nominal dollar GDP growth	6.6	11.0	0.9			-0.5	7.4	9.4	8.6	8.0	7.3	6.7	6.9	7.1	7.2
PV of PPG external debt (in Billions of US dollars)			2.4			2.8	3.2	3.5	3.6	3.7	3.9		4.8	7.0	
(PVt-PVt-1)/GDPt-1 (in percent)						**5.1**	4.9	3.8	1.7	1.3	1.8	3.1	1.1	1.4	1.1
Gross workers' remittances (Billions of US dollars)	2.0	2.2	2.1			1.8	2.0	2.3	2.4	2.6	2.7		3.3	5.2	
PV of PPG external debt (in percent of GDP + remittances)	...	...	28.1			31.4	32.4	32.2	30.8	29.6	29.1		25.3	19.3	
PV of PPG external debt (in percent of exports + remittances)	...	...	51.0			59.8	61.7	60.9	59.5	57.4	56.5		49.3	38.1	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	2.2			2.9	3.3	3.3	3.5	3.6	3.5		4.1	4.4	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

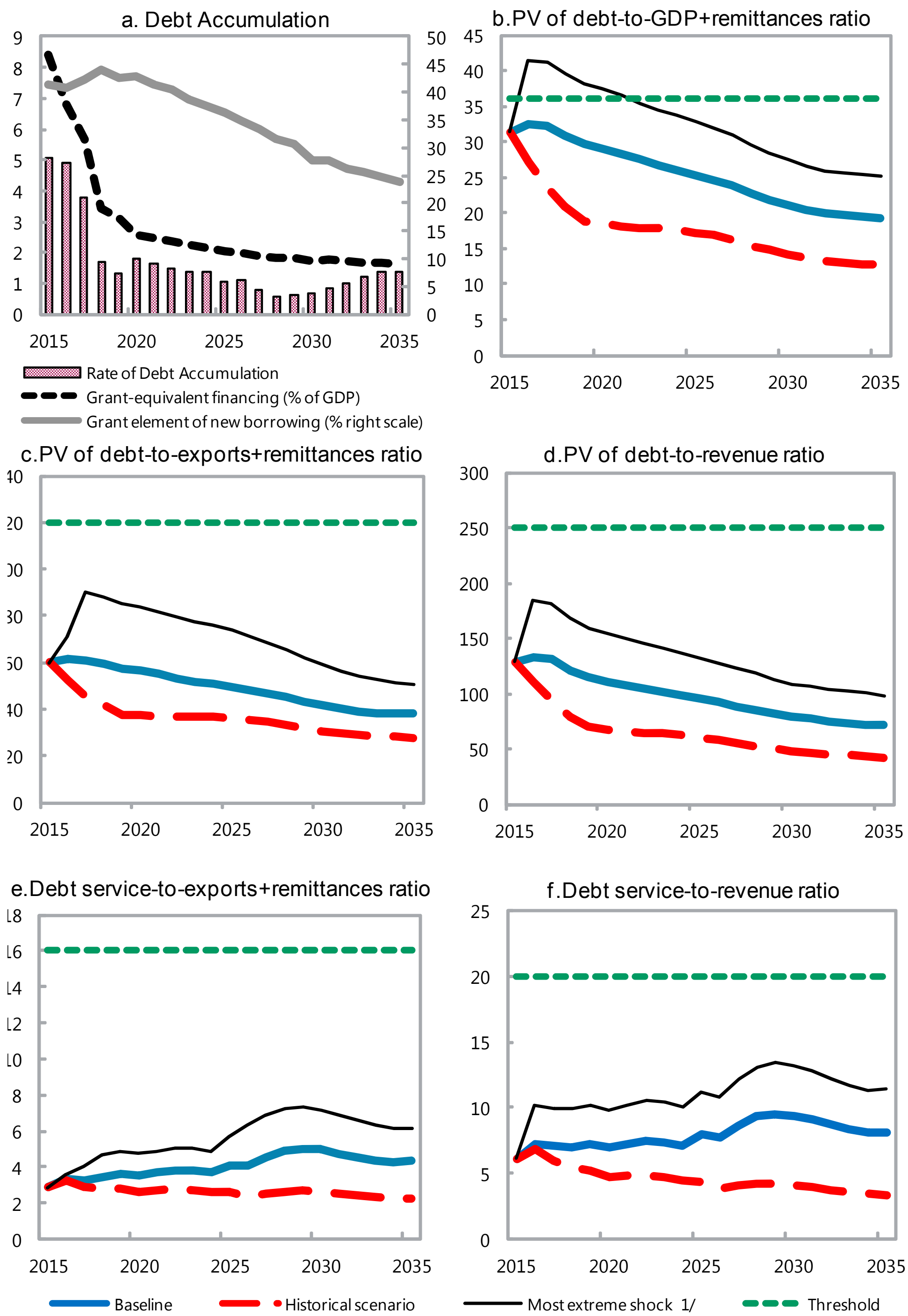
5/ Current-year interest payments divided by previous period debt stock.

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

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

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

Figure 1. Kyrgyz Republic: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015–35 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Table 2. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–35 (continued)

(In percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
PV of debt-to-GDP+remittances ratio								
Baseline	31	32	32	30.8	29.6	29.1	**25.3**	19
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	31	27	24	21	19	18	**17**	13
A2. New public sector loans on less favorable terms in 2015-2035 2	31	34	34	34	33	33	**31**	32
A3. Alternative Scenario : One time 10 percent drop in remittances	31	32	31	29	27	27	22	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	31	33	34	33	31	31	**27**	20
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	31	35	40	39	37	37	**32**	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	31	34	35	34	33	32	**28**	21
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	31	37	40	37	36	35	**30**	21
B5. Combination of B1-B4 using one-half standard deviation shocks	31	36	41	39	37	37	**32**	22
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	31	41	41	40	38	37	**33**	25
PV of debt-to-exports+remittances ratio								
Baseline	60	62	61	59	57	57	**49**	38
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	60	52	46	41	38	37	**36**	28
A2. New public sector loans on less favorable terms in 2015-2035 2	60	64	65	65	64	64	**61**	62
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	60	61	60	59	57	56	**49**	37
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	60	71	90	88	85	84	**74**	50
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	60	61	60	59	57	56	**49**	37
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	60	73	77	72	70	69	**59**	41
B5. Combination of B1-B4 using one-half standard deviation shocks	60	70	78	74	71	70	**61**	42
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	60	61	60	59	57	56	**49**	37
PV of debt-to-revenue ratio								
Baseline	129	133	131	121	115	111	**95**	71
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	129	110	95	80	70	67	**60**	42
A2. New public sector loans on less favorable terms in 2015-2035 2	129	138	140	133	128	126	**118**	116
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	129	135	140	130	123	119	**102**	76
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	129	143	164	152	144	140	**119**	77
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	129	140	148	137	130	126	**108**	80
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	129	149	158	147	139	135	**114**	76
B5. Combination of B1-B4 using one-half standard deviation shocks	129	147	168	155	148	143	**122**	80
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	129	184	181	168	159	154	**132**	98

Table 2. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–35 (concluded)

(In percent)

Debt service-to-exports+remittances ratio								
Baseline	2.9	3.3	3.3	3.5	3.6	3.5	**4.1**	4.4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	3	3	3	3	3	3	**3**	2
A2. New public sector loans on less favorable terms in 2015-2035 2	3	3	3	4	4	4	**4**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	3	3	3	3	4	4	**4**	4
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	3	4	4	5	5	5	**6**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	3	3	3	3	4	4	**4**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	3	4	4	4	4	4	**5**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	3	4	4	4	4	4	**5**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	3	3	3	3	4	4	**4**	4
Debt service-to-revenue ratio								
Baseline	6.2	7.2	7.1	7.0	7.2	6.9	**7.9**	8.1
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	6	7	6	5	5	5	**4**	3
A2. New public sector loans on less favorable terms in 2015-2035 2	6	7	7	7	8	8	**8**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	6	7	8	8	8	8	**9**	9
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	6	7	7	8	8	8	**9**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	6	8	8	8	8	8	**9**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	6	7	8	8	8	8	**9**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	6	7	8	8	9	8	**10**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	6	10	10	10	10	10	**11**	11
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	25	25	25	25	25	25	**25**	25

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Kyrgyz Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012–35

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2012	2013	2014	Average 5/	Standard Deviation 5/	2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	49.0	46.1	53.0			58.8	61.1	60.9	57.7	54.9	53.4		53.6	51.4	
of which: foreign-currency denominated	46.9	43.7	51.0			57.0	59.5	59.5	56.4	53.7	52.0		42.7	31.7	
Change in public sector debt	-0.4	-2.9	6.9			5.8	2.3	-0.2	-3.2	-2.8	-1.4		0.0	-0.3	
Identified debt-creating flows	2.3	-1.0	6.6			4.2	1.5	-1.7	-4.1	-4.6	-3.4		-1.3	-1.1	
Primary deficit	4.4	2.7	2.9	2.7	2.0	6.7	5.7	3.1	0.6	-0.8	0.0	2.6	1.5	1.3	1.4
Revenue and grants	34.9	34.4	36.0			35.0	33.8	33.9	34.0	34.2	33.9		33.2	32.6	
of which: grants	2.5	2.4	3.5			4.7	3.3	2.9	1.9	1.8	1.2		1.0	0.7	
Primary (noninterest) expenditure	39.3	37.2	38.9			41.6	39.6	37.1	34.6	33.4	33.9		34.7	33.9	
Automatic debt dynamics	-2.1	-3.8	3.8			-2.4	-3.8	-4.5	-4.4	-3.6	-3.1		-2.6	-2.4	
Contribution from interest rate/growth differential	-0.3	-5.2	-2.0			-0.9	-2.3	-3.4	-3.4	-3.1	-3.0		-2.6	-2.4	
of which: contribution from average real interest rate	-0.7	-0.5	-0.4			0.0	-0.4	-0.4	-0.4	-0.3	-0.3		-0.1	0.1	
of which: contribution from real GDP growth	0.4	-4.7	-1.6			-0.9	-1.9	-3.0	-3.0	-2.8	-2.7		-2.5	-2.5	
Contribution from real exchange rate depreciation	-1.8	1.4	5.7			-1.6	-1.5	-1.1	-1.0	-0.4	0.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	-0.4	-0.3	-0.3	-0.3	-0.3		-0.2	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	-0.4	-0.3	-0.3	-0.3	-0.3		-0.2	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-2.7	-1.8	0.3			1.5	0.8	1.5	0.9	1.8	1.9		1.3	0.8	
Other Sustainability Indicators															
PV of public sector debt	...	...	38.0			40.8	42.2	42.1	40.1	38.3	37.8		41.5	42.3	
of which: foreign-currency denominated	...	...	36.0			39.0	40.6	40.6	38.8	37.2	36.3		30.6	22.6	
of which: external	...	...	36.0			39.0	40.6	40.6	38.8	37.2	36.3		30.6	22.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	8.2	7.7	6.1			9.7	8.9	6.2	3.6	2.2	3.1		10.0	6.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	105.6			116.7	124.8	124.0	117.9	112.2	111.3		124.8	129.5	
PV of public sector debt-to-revenue ratio (in percent)	...	...	117.2			134.9	138.4	135.6	124.7	118.3	115.5		128.7	132.6	
of which: external 3/	...	...	110.9			128.9	133.1	130.9	120.7	114.6	111.1		95.0	70.9	
Debt service-to-revenue and grants ratio (in percent) 4/	6.5	11.6	5.6			6.1	7.0	6.9	6.9	7.1	7.6		14.3	18.6	
Debt service-to-revenue ratio (in percent) 4/	7.0	12.5	6.2			7.0	7.8	7.5	7.3	7.5	7.8		14.8	19.0	
Primary deficit that stabilizes the debt-to-GDP ratio	4.8	5.6	-4.1			0.9	3.4	3.3	3.8	2.1	1.4		1.5	1.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	-0.9	10.5	3.6	4.1	4.0	1.7	3.4	5.2	5.2	5.2	5.3	4.3	4.9	5.1	5.2
Average nominal interest rate on forex debt (in percent)	1.2	1.2	1.3	1.1	0.2	1.4	1.1	1.1	1.1	1.3	1.3	1.2	1.6	2.3	1.8
Average real interest rate on domestic debt (in percent)	5.5	16.7	6.0	1.6	8.1	3.7	2.4	1.9	1.9	1.9	0.0	2.0	0.0	0.0	0.0
Real exchange rate depreciation (in percent, + indicates depreciation	-3.9	3.4	13.8	-3.9	10.7	-3.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	9.5	3.5	7.9	11.2	6.9	10.1	8.0	7.1	5.9	4.7	4.0	6.6	4.0	4.0	4.0
Growth of real primary spending (deflated by GDP deflator, in percer	6.3	4.6	8.4	2.0	3.2	8.8	-1.7	-1.5	-1.7	1.5	6.8	2.0	4.5	6.0	5.2
Grant element of new external borrowing (in percent)	...	...	...	...	...	41.2	40.8	42.2	44.2	42.6	42.8	42.3	36.3	23.8	...

Sources: Country authorities; and staff estimates and projections.

1/ General government gross debt.

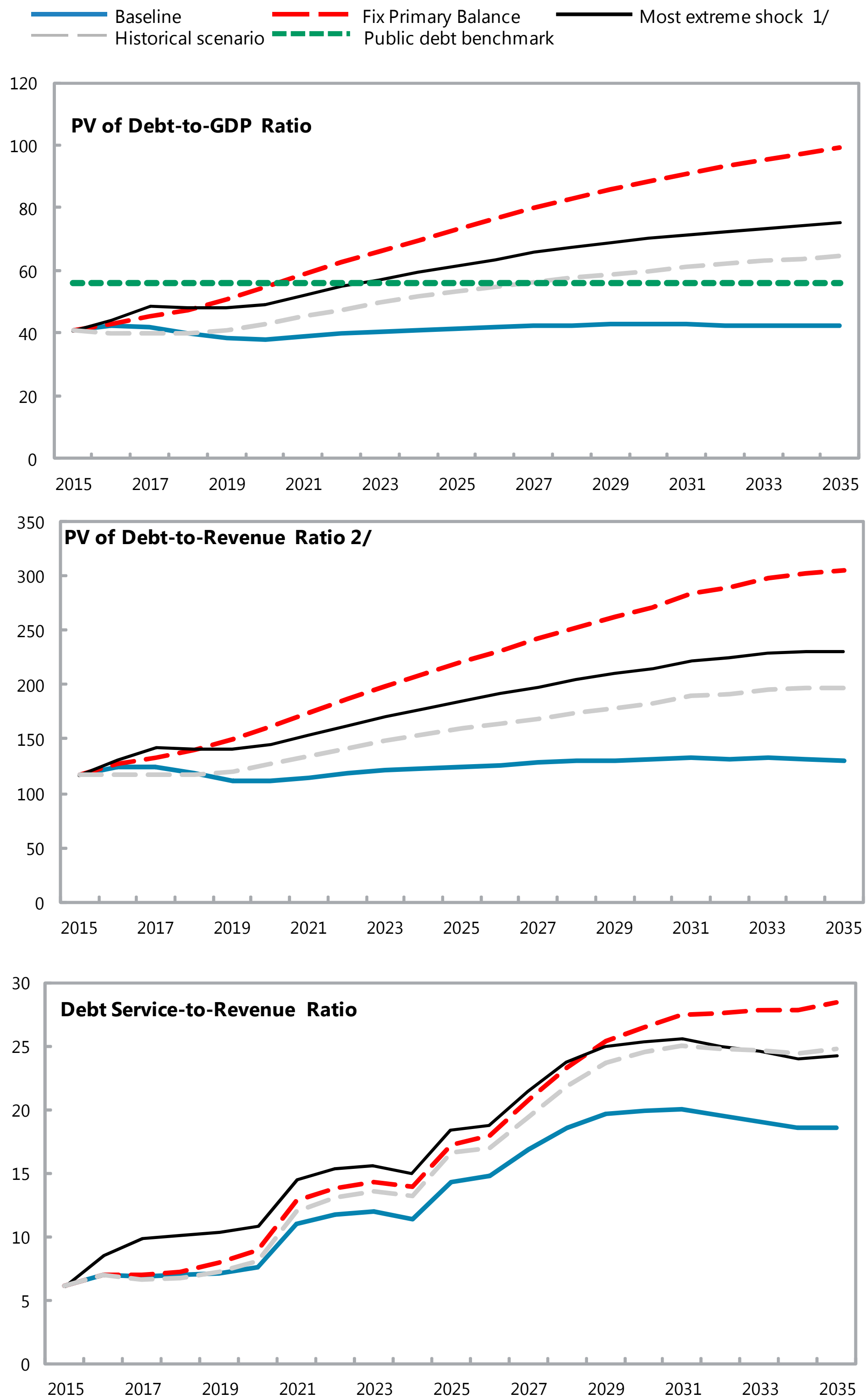
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

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

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

Figure 2. Kyrgyz Republic: Indicators of Public Debt Under Alternative Scenarios, 2015–35 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.

2/ Revenues are defined inclusive of grants.

Table 4. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public Debt 2015–35

		Projections						
	2015	2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	41	42	42	40	38	38	41	42
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	41	40	40	40	41	43	53	65
A2. Primary balance is unchanged from 2015	41	43	45	48	51	55	73	99
A3. Permanently lower GDP growth 1/	41	43	43	42	42	42	55	88
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	41	44	48	48	48	49	62	75.3
B2. Primary balance is at historical average minus one standard deviations in 2016-201	41	42	43	41	39	38	42	43
B3. Combination of B1-B2 using one half standard deviation shocks	41	41	43	42	41	41	50	58
B4. One-time 30 percent real depreciation in 2016	41	58	56	52	50	49	50	49
B5. 10 percent of GDP increase in other debt-creating flows in 2016	41	50	49	47	45	44	47	46
PV of Debt-to-Revenue Ratio 2/								
Baseline	117	125	124	118	112	111	125	130
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	117	118	117	117	120	126	160	197
A2. Primary balance is unchanged from 2015	117	127	134	140	149	162	221	305
A3. Permanently lower GDP growth 1/	117	126	128	124	121	124	166	268
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	117	131	141	141	140	145	185	230
B2. Primary balance is at historical average minus one standard deviations in 2016-201	117	123	126	119	114	113	126	130
B3. Combination of B1-B2 using one half standard deviation shocks	117	122	126	123	120	122	150	177
B4. One-time 30 percent real depreciation in 2016	117	170	164	154	146	143	151	152
B5. 10 percent of GDP increase in other debt-creating flows in 2016	117	146	145	137	131	130	141	140
Debt Service-to-Revenue Ratio 2/								
Baseline	6	7	7	7	7	8	14	19
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	6	7	7	7	7	8	17	25
A2. Primary balance is unchanged from 2015	6	7	7	7	8	9	17	28
A3. Permanently lower GDP growth 1/	6	7	7	7	7	8	16	27
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	6	7	7	8	8	9	17	25
B2. Primary balance is at historical average minus one standard deviations in 2016-201	6	7	7	7	7	8	14	19
B3. Combination of B1-B2 using one half standard deviation shocks	6	7	7	7	7	8	16	22
B4. One-time 30 percent real depreciation in 2016	6	8	10	10	10	11	18	24
B5. 10 percent of GDP increase in other debt-creating flows in 2016	6	7	8	8	8	8	15	20

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Annex V. Kyrgyz Republic: Reserve Metrics and Exchange Rate Assessment

Kyrgyz Republic's current level of reserves is broadly adequate according to the IMF metric balancing costs and benefits of holding reserves although the economy remains vulnerable to large external shocks and high dollarization suggests that extra reserve cushions could be necessary. The real effective exchange rate appears to be in line with its fundamentals but the large current account deficit call for an enhancement of Kyrgyz nonprice competitiveness through a reduction of infrastructure and energy supply bottlenecks and an improvement of the business environment.

Reserve metric

By 2014 Kyrgyz Republic's reserves appeared broadly adequate but the size of the external shock the country is currently facing and the high dollarization of the economy calls for a careful management of reserves. Gross international reserves covered 3.6 months of imports at end-2014 but are projected to decline to 3.1 months in 2015 and the following years. This reserve level is lower than the CCA average but higher than the region oil and gas importer's average level (see Figure). According to the IMF metrics for low income countries, the Kyrgyz Republic coverage is adequate (see Figure).[1] The framework takes into account the country fundamentals (CPIA standing for the quality of institution and the fiscal balance) and calibrates the shock variables (on external demand, FDI to GDP, and terms of trade) on the bottom 10 percentile of the country specific distribution over the past 10 year (2005–14).

Moreover, the model takes into account the fact that the country is a commodity exporter. Under these assumptions, the results suggest that the adequate level of reserves using the 2014 fiscal deficit varies from one month to 5.4 months depending on the cost of holding reserves. Using the projected fiscal deficit for 2015 would, however, imply a higher level of optimal reserves, varying from 1.3 months to six months. Considering that the cost of holdings reserves is unlikely to be inferior to 4 percent in Kyrgyz Republic, the current and projected reserves coverage appears to be adequate according to the metric.

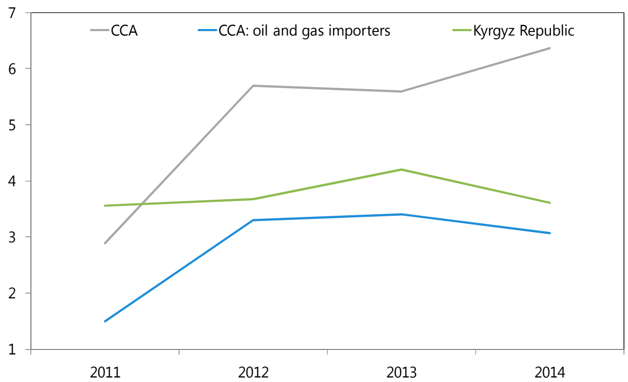
However, two factors call for a higher reserves coverage that are suggested by the model: (i) the model doesn't include any shock on remittances[2] which represent about 30 percent of the

[1] Assessing Reserve Adequacy; IMF Policy Papers; February 14, 2011 and Assessing Reserve Adequacy - Further Considerations; IMF Policy Paper; November 13, 2013.

[2] References are expected to drop by 15 percent in 2015.

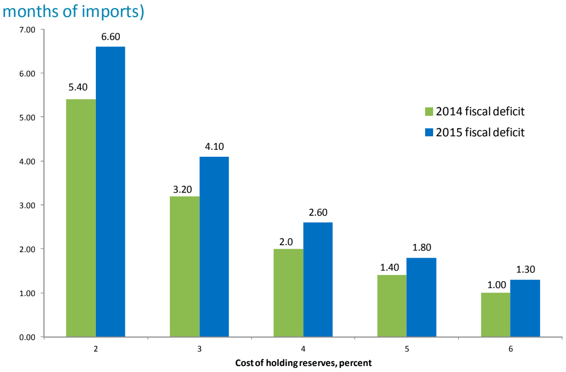
Kyrgyz's GDP and have been quite volatile in the past; and (ii) it doesn't take into account the high dollarization of the economy that increases the country's exchange rate exposure. In this context, the staff recommends to maintain a level of reserves covering at least three months of imports.

Level of Reserves
(In months of imports)



Sources: Kyrgyz authorities and IMF staff estimates and calculations.

Optimal Level of Reserves
(In months of imports)



Sources: Kyrgyz authorities; and IMF staff estimates and calculations.

Exchange rate assessment

Staff's estimates suggest that the exchange rate is broadly in line with its fundamentals. CGER-type, model-based approaches indicate a slight real exchange rate overvaluation but inferior to 5 percent (see Text Table 1). The macrobalance approach suggests a current account norm according to Kyrgyz Republic's fundamentals of -7.7 percent of GDP, about 2.7 percentage points less than the underlying current account in the medium term. Based on an elasticity of the current account to the real effective exchange rate of -0.40 percent (CGER elasticity) or -0.64 (country specific Tokarick elasticity), this would imply a moderate exchange rate misalignment. The external sustainability approach estimates a current account norm for the Kyrgyz Republic which stabilizes the NFA/GDP of the country around its norm. The current account norm (-10.2 percent of GDP) using this methodology is very close to its underlying value suggesting no misalignment of the REER. Finally, the purchasing power parity approach that compares the current REER value to its 10 year historical average suggests a small overvaluation of about 8 percent.

Kyrgyz competitiveness is essentially curbed by infrastructure bottlenecks and a weak business environment. Exchange rate assessment methodologies are subject to limitations and are sensitive to assumptions; they should therefore be viewed with some caution. However staff is in the view that the significant deterioration of the current account balance since 2010, from -6.2 percent of GDP to -13.7 percent of GDP in 2014 is rather due to the launch of an important public investment program with a large import content than to a major exchange rate misalignment. These investments, however, by improving infrastructure and electricity supply should remove a major drag on Kyrgyz competitiveness in the long term. The country competitiveness would also widely benefit from an improvement of the business environment.

Text Table 1. Kyrgyz Republic: Estimated Exchange Rate Misalignment[1]

Method	Macroeconomic Balance	External Sustaibility	Purchasing Power Parity	Average
Current account norm (2018)	-7.7	-10.2		
Underlying current accout (2018)	-10.4	-10.4		
CA gap	-2.7	-0.2		-1.4
REER Misaligment	5.5	0.3	8.4	4.7
Tokarick elasticity	4.2	0.2		
CGER elasticity	6.8	0.4		

[1] Positive numbers signify overvaluation.

Annex VI. Kyrgyz Republic: Preserving Financial Stability During Credit Boom

Strong credit growth over the past three years, albeit from a low basis, accompanied with exchange rate depreciation and increasing dollarization is signaling a greater risk of financial instability. Credit grew by 118 percent (offsetting for depreciation) since 2011. The deposit base expanded by 100 percent during the same period. Leverage is still low and banks are well capitalized (CAR at 21.8 is well above regulatory requirement of 12 percent) partly offsetting the risk from strong credit growth. While the recent credit boom can be largely explained by macro-stabilization following the 2010 crises, loan to deposit ratio has stepped out of the safe 100 zone in late 2014. Despite high dollarization, currency mismatch is not yet a cause for concern. The risk of maturity mismatch is more pressing, however, with 84 percent of loans with over one year in maturity while 89 percent of deposits with a maturity under a year. System liquidity ratio at 65 suggests that banks would be able to sustain most liquidity shocks. The additional source of risk for banking system is concentration risk, as trade and agriculture account for over 50 percent of the lending portfolio. The 2013 FSAP stress tests suggest that banks would be able to sustain a 20 percent depreciation shock, as well as shocks similar to the 2010 crises scenario (400 percent increase in NPLs, 22 percent deprecation, and increase in interest rate). Nevertheless, given the latest economic developments, a new stress test is warranted.

Micro Finance Organizations (MFOs) play an important role in the Kyrgyz economy and financial system. There is over 300 MFOs and their lending accounts for about 5.7 percent of GDP, and is also concentrated in trade, agriculture and consumer loans. The MFOs lend only in som—although some of them could lend in dollars after receiving a special license from the NBKR—and their credit grew about 20 percent during 2014.

Interconnectedness in the banking system is relatively low, as well as exposure of banks to MFOs (about 4 percent of loan portfolio). In addition, the financial system is relatively isolated from the region which limits the contagion and crises spillover effects. Nine foreign banks hold 44 percent of assets and 52 percent of deposits. Given that there is only one branch, the NBKR can fully supervise these banks and there are no major risk stemming from the foreign ownership of banks.

Net interest margin at about 8 percent suggest both limited competition in the banking sector and high risk of lending due to weak bankruptcy procedure and collateral recovery. Of the 24 banks operating in the Kyrgyz Republic, most concentrate on niche markets and only few compete directly with each other. The five largest banks hold 2/3 of deposits and more than half of the loan portfolio. The ten largest banks hold 80 percent of loans and 90 percent of deposits.

The capacity of banking supervision is limited and the large number of small banks leads to fragmentation of efforts. However, onsite supervision is conducted annually and has so far been successful in detecting problems in individual banks. Supervision of MFOs is challenging due to numerous credit-only MFOs that are subject to prudential supervision. The rational for prudential regulation of MFOs that do not take deposits is unclear. The oversight of MFO should be revised and licensing strengthened to enable better enforcement of existing and potential new legislation.

Due to lack of traction, the nascent monetary policy framework is proving ineffective in addressing the compound challenge of rapid credit growth, dollarization and exchange rate volatility. Staff is, therefore, proposing a three-pronged strategy based on a mix of monetary, supervisory and macro-prudential policies:

- Continue to raise the policy rate with the aim of narrowing the large spread between the policy rate and the weighted average lending rate;
- Limit foreign exchange interventions to smoothing exchange rate volatility;
- Introduce a set of macro-prudential measures aimed at managing liquidity, moderating credit growth and dollarization;
- Require banks to tighten reporting requirement for their clients;
- Increase supervisory efforts and conduct more frequent stress tests; and
- Strengthen supervisory capacity and develop crisis preparedness framework.

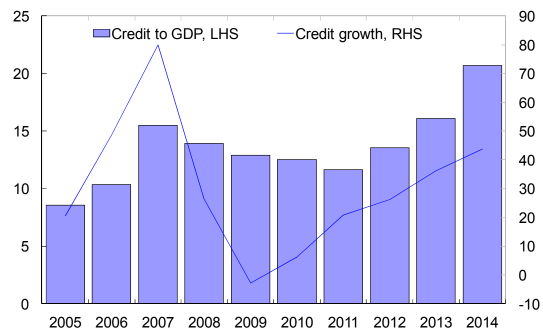
The macro-prudential toolkit proposed includes measures aimed at:

- Making it less attractive for banks to hold foreign exchange deposits by introducing a higher reserve requirement;
- Making it more difficult for banks to issue foreign exchange loans by increasing provisioning requirements on the basis of the share of foreign currency in the borrowers income; and limiting consumer lending in foreign currency to clients earning more than 50 percent of income in foreign currency;
- Making it harder to issue credit by introducing debt service to income ration;
- Protecting banks from foreign exchange exposure by strictly enforcing limits on open market positions; and
- Mopping up excess liquidity by tightening reserve requirements.

The measures introduced take into account capacity limits in terms of banking supervision. They are introduced initially with low threshold and will be fine-tuned periodically in response to developments.

Figure 1. Kyrgyz Republic: Financial Sector Developments

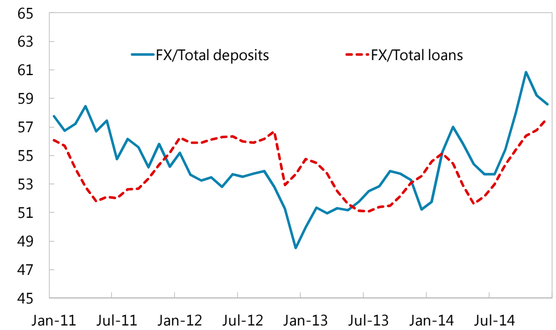
Credit Growth



Source: The NBKR.

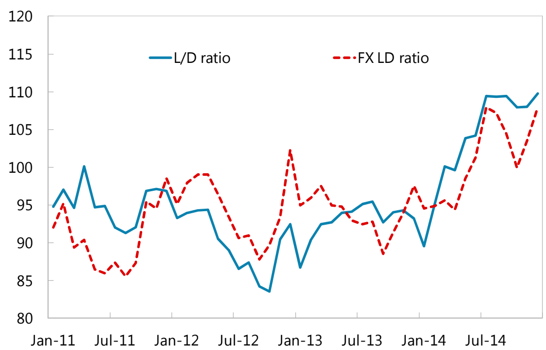
Dollarization

(In percent)



Source: The NBKR.

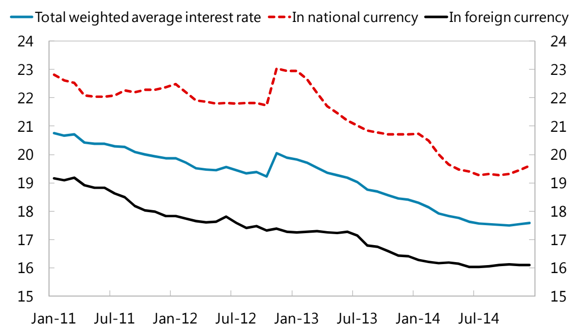
Loan Deposit Ratio, 2011–14



Source: The NBKR.

Lending Interest Rates

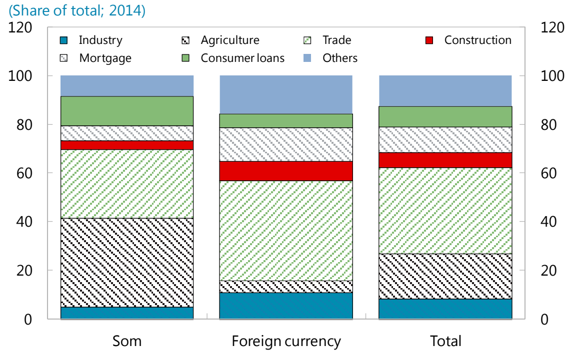
(In percent)



Source: The NBKR.

Loans by Sector

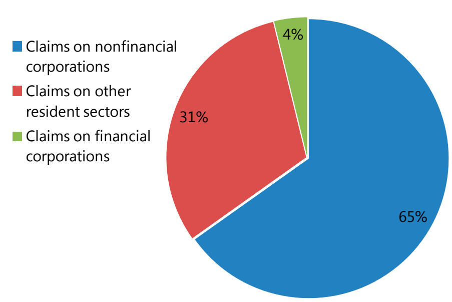
(Share of total; 2014)



Source: The NBKR.

Lending from Banking System to Economy

(2014; share of total)



Source: The NBKR.

Annex VII. Kyrgyz Republic: Importance of the Banking Code

The banking code is essential to facilitate the stability and development of the financial sector. It fixes problems in existing bank legislation, especially with respect to strengthening the NBKR independence, and converting the existing patchwork bank resolution framework into a single strengthened regime.

Following the 2010 political crisis and revolution against president's Bakiev regime, a reported US$240 million deposit outflow prompted fears of capital flight. Consequently, deposits declined by 30 percent during April 2010, mostly driven by withdrawal of nonresident deposits from the largest bank in the country Asia Universal Bank (AUB). As a result, the AUB and seven other banks were put under conservatorship. The main criterion for imposing temporary administration appears to have been alleged links to the previous regime. In addition, certain irregularities (loans made against likely unrecoverable collateral in foreign countries, and securities purchased by AUB were not registered to AUB) were discovered in AUB. The resolution of the AUB was intermittently disrupted and delayed by court rulings, and three other banks remain placed under conservatorship since then. In addition, continued litigation against the NBKR and its staff, is draining the NBKR's resources and preventing it from taking decisive actions against problem banks.

As a result of this crisis, flaws in the Kyrgyz legal framework emerged with respect to early intervention, bank resolution, and external pressure on the NBKR (see Country Report No. 11/156). Existing legislation lacks an effective resolution framework to protect functions and assets of banks. Most resolution procedures, take place under court supervision, with the participation of creditors and shareholders, and DEBRA acting as the sole liquidator. As a result of this framework, the liquidation of banks under DEBRA has been pending since 1999.

To address these weaknesses, the authorities requested the Fund assistance in preparing a Banking Code. This translated in intensive TA and the posting of a resident legal advisor for 18 months in Bishkek. The draft code was finalized in 2013 and submitted to parliament in September of the same year (structural benchmark under the previous ECF arrangement). The new code would bring the Kyrgyz bank resolution framework in line with international standards, including the Basel Core Principles and Key Attributes for Resolution of Financial Sector Board. If adopted the code would:

- Be only superseded by the Constitution or Constitutional Laws;
- Preserve the autonomy of the NBKR;
- Improve the framework for early intervention and resolution of problem banks;
- Enhance legal protection for NBKR staff;

- Limit the scope of judicial review of decisions taken by the NBKR with respect to license revocation and bank resolution;
- Establish the NBKR as the sole authority to hold and manage official foreign reserves;
- Extend the term of engagement of the NBKR external auditors; and
- Strengthen the internal oversight of the NBKR.

Annex VIII. Kyrgyz Republic: Risk Assessment Matrix (January 2015)[1]

Source of Risks	Relative Likelihood	Possible impact if risk is realized
Global Risks		
Protracted period of slower growth in emerging economies: • **Emerging markets:** Maturing of the cycle, misallocation of investment, and incomplete structural reforms leading to prolonged slower growth.	**Medium**	**Staff assessment: High** A more protracted slowdown in Russia would have effects via the exchange rate, remittances, trade, and investment channels.
Sharp growth slowdown and financial risks in China: • **Insufficient progress with reforms leads to a continued buildup of vulnerabilities,** which over the medium term results in a significant growth slowdown. • **Sharp slowdown in 2015–16.** Growth falls significantly below target, possibly due to a severe housing downturn or a shock in the shadow banking sector, and absent offsetting stimulus.	**Medium** **Low**	**Staff assessment: Low/Medium** Effects would be via slowdown of FDI and PIP loans.
Country-Specific Risks		
Regional conflict Continuing ethnic tensions at the border of neighboring countries and regional water disagreements could turn into conflicts.	**Low**	**Staff assessment: Medium/High** **Severe impact on economic activity.**

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Nonmutually exclusive risks may interact and materialize jointly.

Delays in reforms due to the political cycle Pressures in the run up to this year's parliamentary elections could cause delays in enacting laws by legislative branch and in implementing reforms by executive branch.		**Staff assessment: Law/Medium** **If tax code is not approved, the 2016 budget financing gap may become higher. If banking code is not adopted, the resolution of banks would be prolonged and impact confidence in the banking sector.**
Disruptions in gold production and lower gold prices The ongoing dispute with the major gold-mining company could lead to a drop in gold production and to lower investor confidence.	**Medium**	**Staff assessment: Medium** A drop in gold production would adversely affect growth and budgetary revenues. Another contingency budgetary cost could stem from potential litigation. A prolonged dispute would negatively affect investment.
Build-up of risks in the financial sector High credit growth, dollarization and exchange rate depreciation are signaling the build-up of risks.	**Medium**	**Medium** Credit and liquidity risk could become difficult to manage, especially for small banks. NPLs could increase. Problems would spillover to economy and negatively affect the growth prospects**.**
Policy response in most cases would involve an acceleration of structural reforms, preventing excess volatility of exchange rate by using reserves, implementing macroprudential measures and enacting banking code.		

Appendix I. Letter of Intent

Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Bishkek, March 24, 2015

Dear Madam Lagarde:

Last year the Kyrgyz Republic successfully completed a three year arrangement under the Extended Credit Facility (ECF). All reviews were completed without delay and only one performance criterion was missed. Macro-economic stability was restored and growth picked up after a contraction of 0.5 percent in 2010. Inflation was kept below 10 percent throughout the program. Fiscal performance was stronger than planned, with the fiscal adjustment of more than 2 percentage points over three years despite sizeable increase in public investment. The National Bank of the Kyrgyz Republic (NBKR) launched a new policy framework aimed at enhancing the monetary transmission mechanism. Financial sector supervision was strengthened.

We are committed to completing the reform agenda started under the previous program. We made significant progress developing the financial sector and reforming tax administration. Other key reforms, such as the Banking Code, the Budget code, TSA implementation, and the revised AML/CFT law, are on the way. We are committed to finalize the audit of the debt resolution agency (DEBRA) and liquidating the banks under its administration. We also intend to devote significant attention to improving governance, transparency, and the business environment.

Maintaining macroeconomic stability, putting public finances on a sustainable footing, and building a strong financial sector are our key priorities for addressing the challenges we face going forward. Those include dependence on gold, remittances, and foreign aid, high external debt and the current account / fiscal deficits. Combined with a deteriorating regional environment and accession to the Eurasian Economic Union (EEU) early next year, these challenges, increase the vulnerability of our economy. Nascent institutions, political risks, and a challenging business environment further hamper economic development.

Recognizing that these important medium-term challenges remain, we request the approval of a new 36-month arrangement under the ECF in an amount equivalent to SDR 66.6 million (75 percent of quota). We believe that a Fund-supported program would bolster our efforts, both as a source of financing and as a way to ensure fiscal discipline, by providing a framework for structural reforms. In addition it would catalyze donor support and help us to improve investor confidence. To this end, we are prepared to pursue further structural reforms, continue fiscal consolidation, maintain debt on a sustainable level, tighten monetary policy, and strengthen prudential controls. To help us meet these objectives we request that the disbursements under the IMF program are channeled to our budget.

The Kyrgyz Republic believes that the policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate for this purpose. We will consult with the IMF on the adoption of these measures and in advance to the revisions to the policies contained in the Memorandum of Economic and Financial Policies in accordance with the IMF's policies on such consultation.

During the Fund-supported program period the government will not introduce any exchange rate restrictions, multiple currency practice, and import restrictions for balance of payments purposes, and will continue to comply with all obligations under Article VIII of the IMF's Articles of Agreements.

In line with our commitment to transparency in government operations, we consent to the publication of all ECF-related documents circulated to the IMF Executive Board.

/s/

Djoomart Otorbaev
Prime Minister of the Kyrgyz Republic

/s/

Olga Lavrova
Minister of Finance of the
Kyrgyz Republic

/s/

Nurbek Jenish Acting Chairman of the National
Bank of the Kyrgyz Republic

Attachment I. Memorandum of Economic and Financial Policies (MEFP) for 2015–18

March 24, 2015

I. INTRODUCTION

This memorandum sets out the economic and financial policies of the government of the Kyrgyz Republic for 2015–18, which aim at: 1) reducing the operational balance by increasing tax revenues and streamlining current expenditures to support the pro poor spending; 2) boosting public investment in essential infrastructure without undermining public debt sustainability; 3) reinforcing the monetary framework to enhance transmission, maintain price stability and promote financial development while protecting foreign exchange reserves while pursuing flexible exchange rate policy; 4) improving financial stability and inclusion by strengthening financial oversight; and 5) carrying out structural reforms to improve the business environment and promote a competitive private sector which could support sustained broad based growth. These policies form the basis of our economic program, which will be supported by a new three-year arrangement under an Extended Credit Facility (ECF).

A. Recent Developments and Outlook

1. **The economic slowdown and higher inflation which started in 2014 will continue in 2015 precipitated primarily by external shocks.** The deepening economic crisis in Russia, adverse weather and the initial impact of accession to the EEU are the key factor contributing to the outlook in 2015. Growth is expected to drop significantly to below 2 percent due to a sharp drop in gold production, and the slowdown in services. Inflation is expected to average about 10 percent.

2. **Economic slowdown in Russia and Kazakhstan, our key economic partners, is the main challenge we face today.** The depreciation of the som against the U.S. dollar is driven mainly by the even faster fall of the Russian and Kazakh currencies. Our economy's dependency on imports means that depreciation is feeding directly into higher prices. Depreciation is also increasing the foreign exchange risks facing our highly dollarized banking system. Remittances from workers in Russia and Kazakhstan, which constitute up to 30 percent of our economy have slowed down and are expected to decline by more than 10 percent in 2015. Finally weaker demand in Russia and Kazakhstan will adversely affect our export and re-export sectors.

3. **We will maintain our policy of a floating exchange rate of the U.S. dollar to the som.** Our interventions continue to be limited to reducing extreme volatility and mitigate the impact on inflation and the banking system. Given the strong links between our economy and those of Russia and Kazakhstan, the som lost 20 percent of its value against the U.S. dollar

in 2014. However, the impact of the external factors on the exchange rate, high inflation and the high degree of dollarization of our banking system, compel us to intervene to defend the exchange rate. In 2014 we intervened 58 times, deploying US$516 million of our foreign exchange reserves (net interventions).

4. **Our efforts to reduce inflationary pressures, by mopping up excess liquidity, are hampered by the still weak interest rate transmission mechanism and dollarization.** Despite raising interest rates eight times in 2014, from 4.16 percent to 10.5, demand for NBKR notes remains weak with banks preferring to use liquidity to purchase foreign exchange, compounding the pressure on the currency. The share of dollar denominated deposits net of interbank transactions increased to 56 percent from 51 percent during 2014, caused by devaluation and faster growth in foreign exchange deposits compared to those denominated in som.

5. **Credit grew by 44 percent in 2014, reflecting a low base effect, the devaluation of the som and our efforts to improve access to credit, particularly for agriculture.** A substantial proportion of credit growth, about 36 percent, is linked to trade, with the NBKR agricultural sector credit auction of 2.6 billion som accounting for 17 percent of the growth. At 20 percent of GDP, credit to the private sector remains far below the CIS average of about 31 percent. However, the increase in the ratio of credit to GDP, which exceeded 4 percentage points in 2014 could render the banking sector more vulnerable. We are closely monitoring banks with the fastest credit growth rates to ensure that there is no deterioration in the quality of their asset portfolio.

6. **We expect the fiscal deficit in 2015 to widen compared to initial estimates driven mainly by the implementation of large foreign-financed investment projects.** As in 2014, tax revenues and current spending will remain broadly flat in percent of GDP. Capital spending will continue to grow. Implementation of large foreign finance infrastructure projects totaling 8 percent of GDP represents a 4 percentage point increase over 2014. Additional pressure could come from drought induced energy shortages as well as repercussion from the unfolding economic crisis in Russia.

7. **We have signed the agreement to join the EEU on December 23, 2014 with membership coming into effect on May 9, 2015.** We have implemented a significant part of the accession roadmap including the enactment of 34 relevant laws. We have reached agreement with our EEU partners, that entitles us to 1.9 percent share of the total EEU customs revenues. We have also agreed on a set of exclusions and deferrals to protect imports in sensitive areas. We expect to Russia to provide financing on a grant in kind basis for the next three years starting from 2015 for works, equipment delivery, service rendering and other activities for implementation of the road map in the amount of US$200 million (or equivalent amount in ruble). In addition, the first US$100 million towards the establishment of the US$1 billion Russia-Kyrgyz development fund has been disbursed.

8. **Over the course of the next 12 months we expect a number of challenges.** The continued slowdown among our trading partners, especially Russia, could further hurt growth

and put pressure on the external and fiscal accounts. Political dynamics in the run-up to the October 2015 elections could slow down reform momentum. Finally, uncertainty with respect to accession to the EEU could complicate the policy decision making process in the near term.

II. POLICIES FOR 2015 AND BEYOND

9. Generating inclusive growth and reducing poverty through maintaining macro-economic stability, achieving fiscal and debt sustainability, supporting financial sector reforms, and encouraging structural reforms to build strong institutions are the cornerstones of the program. In particular:

- We will aim for real GDP to grow of about 3.4 percent on average during 2015–17, which is below potential, reflecting mainly the challenging regional environment and lower gold output.
- We expect inflationary pressures, particularly the effects of the som devaluation, to continue in 2015, gradually receding in 2016 and 2017 with inflation settling around 6 percent by the end of 2017. Tight monetary policy stance, prudent fiscal policy and stabilization of the regional environment will contribute to achieving this target.
- The general government deficit excluding on-lending will be brought down to 3.3 percent of GDP by 2017, as a result of a combination of tax administration, tax policy and spending measures.
- The current account deficit is expected to remain high over the medium term. The ECF arrangement is expected to catalyze significant donor support, which will help to finance the current account deficit and maintain comfortable reserve levels. By signaling commitment to reforms, the program will also bolster investor's and business confidence in the economy and the national currency.

B. Fiscal Policy

10. Our fiscal plans for 2015–17 are predicated on an increase in public investment to close infrastructure and energy gaps. Our 2015 budget is based on an increase in the deficit due to higher public investment. The overall deficit will peak in 2015 tapering towards the end of the program as tax and expenditure measures are enacted. We will not be able to implement new tax measures in an election year however we will prepare the legislation to be able to introduce new measures for 2016 and 2017. For financing, we will rely mainly on external sources, with domestic financing declining compared to the previous year, to prevent crowding out the private sector.

11. Fiscal adjustment will accelerate in 2016 and 2017 to compensate for the balance's deterioration in 2015. Tax revenues would increase by 0.6 percentage points of GDP, while current expenditures would decrease by 2.3 percentage points of GDP. Grants are expected to decline by 1.8 percentage points of GDP and capital expenditures are expected to increase by about 0.4 percentage points of GDP. Financing of the deficit will continue to rely on external financing. These projections will be revised once there is more clarity regarding the impact of accession on revenues.

12. To meet the above fiscal targets, we will implement the following tax policy measures:

- We will prepare legislation in 2015 for implementation of the following measures starting in 2016: (i) strengthening the VAT by reducing the number of exemptions; (ii) gradually phasing out the sales tax; (iii) gradually limiting the use of the patent system; and (iv) we are working with parliament to adopt a simplified recordkeeping and reporting requirements (Structural benchmark, June 2015). Additionally, we will refrain from renewing any exemption that expire and from introducing new exemptions and favorable taxation regimes for selected sectors and activities.

13. We will continue to strengthen tax administration by (i) improving the coordination of customs and tax policies, especially with VAT where customs will continue to play a key role; (ii) increasing excise and property taxes for certain categories of tax payers; (iii) reforming the taxation of mineral resources in line with best practice; and (iv) increasing capacity for tax policy analysis and revenue forecasting, which could be done with the help of an international expert to develop analysis tools and train staff.

14. In order to streamline current expenditures:

- We will refrain from any ad hoc sectoral wage increases before drawing up an action plan for the reform of public sector personnel and remuneration policy which builds on the public expenditure review recently carried out by the World Bank. The action plan would aim to reduce the wage bill as a share of GDP (Structural Benchmark, December 2015). However, we will begin the already announced increase in wages to workers of educational institutions in September 2015 to compensate for a freeze in wages since 2011. We will take offsetting fiscal measures in a supplementary budget (to be submitted to parliament by June 2015) to make this wage increase budget neutral for 2015. Similarly, we will take offsetting fiscal measures in the 2016 budget to ensure that any increase in these wages next year is budget neutral.

- The government intends to: (i) streamline spending on goods and services; (ii) conduct a cost benefit analysis of subsidies, especially in the electricity sector and propose an action plan for reducing their fiscal impact; (iii) streamline untargeted social spending by reviewing the existing programs; and (iv) improving forecasting and procurement of social spending. While reforming the subsidy programs we will also carry out measures to mitigate the impact of reforms on the vulnerable, which will gradually increase social spending over the course of the program.

15. We plan to scale up investment to address essential infrastructure needs identified in the National Development Strategy. The proportion of the investment program financed by foreign concessional lending, primarily from China is expected to total about 24 percent of GDP over the next three years. Additionally, we are negotiating with Eximbank China the second phase of the North-South road for US$300 million with disbursements starting in 2015. Additional investment carried out mainly by Russia will be in the form of FDI. Feasibility studies, carried out to assess the economic viability of these projects have shown them to be profitable, offering rates of return comparable or better than similar projects elsewhere.

16. To ensure the success of our public investment program (PIP), we are committed to improving the efficiency, quality of implementation, and cost effectiveness of the public investment process. With that objective in mind, we will undertake a review of our public investment framework in cooperation with our partners and sectoral ministries to identify gaps and then define an action plan (Structural Benchmark, December 2015), which includes a transparent mechanism and guidelines for independent appraisal, physical monitoring, and evaluation of public investments in line with the World Bank public expenditure review. For this objective we will seek technical assistance from our development partners.

17. Public debt, including SOEs borrowing, will remain at sustainable levels throughout the program despite large investment programs. Despite the ramp up of public investment, public debt will not exceed 62 percent of GDP by the end of the program. Taking remittances into account, the ratio of present value of public debt to GDP should remain below the DSA-estimated distress threshold. We will develop a medium term debt strategy (MTDS) for 2015–17 which will (i) restrict borrowing to projects which enhance growth and promote social development; and (ii) maintain debt at sustainable levels; and (iii) ensure that borrowing is anchored in the medium-term fiscal framework and is consistent with macroeconomic stability (Structural Benchmark April 2015). We will establish a mechanism to closely monitor SOE debt including new contracts and monthly debt service payments. Finally, we will inform IMF staff before contracting any new external borrowing of the borrowing's conditions to ensure that concessionality is in line with program requirements.

18. In the context of our upcoming accession to the EEU we have established a one billion dollar development fund in partnership with Russia, yet to be incorporated. To avoid the pitfalls which could affect such funds we will establish a transparent and accountable governance framework once operational. The governance framework will satisfy the following criteria: (i) ensure the best practices in corporate governance, including being subject to an independent audit by an international reputable firm; (ii) set institutional, corporate, and financial guidelines in line with international best practices, clarifying clearly the functions and the financing of the fund and ensuring its financial soundness; and (iii) ensure that the fund's activities will not create any kind of contingent liability for the sovereign balance sheet, as the government will have no legal obligation to bail the fund out, should it become illiquid or insolvent.

19. Additional structural reforms will aid the process of fiscal consolidation and put public finances on a stronger footing. As a step towards further budgetary consolidation, we plan to integrate the social fund into the state budget framework by bringing its operations under the central treasury. We recently transferred the tax policy unit to the ministry of economy to allow for closer engagement with the private sector. However, in order to ensure coherence and effectiveness of tax policies, we will enhance coordination among key competent agencies particularly the ministry of finance whose consent will be necessary for all new tax measures. In accordance with the IMF TA recommendation in the draft technical memorandum of understanding, it is planned to develop the methodological framework on fiscal risks with the help of an international advisor.

C. Monetary and Exchange Rate Policies

20. We believe that strengthening the newly introduced monetary policy framework is critical to enhancing the transmission mechanism and maintaining price stability. Keeping inflation in check present a challenge in light of the depreciation of the som, rising dollarization and strong private credit growth.

21. To contain inflation, we will: (i) strive to maintain the policy rate positive in real terms to enhance the traction of monetary policy; (ii) contain monetary aggregates; (iii) staff properly the economic department at the NBKR to ensure efficient conducting of the monetary operations, including by improving the forecasting model and analyzing key monetary indicators, including regular liquidity forecasting based on forecast errors; (iv) improve monitoring and management of the systemic liquidity on basis of forecasts of demand and supply of structural liquidity and through better coordination with Kyrgyz Treasury and taking into account foreign-exchange operations of NBKR and government; and (v) analyze operational liquidity needs of banking system.

22. To contain credit growth and dollarization and enhance resilience of the financial sector to currency fluctuations, we will undertake the following macro prudential measures:

- Contain NBKR credit auction pending stabilization of credit growth and foreign exchange market.
- Introduce a higher reserve requirement for foreign exchange deposits compared to som deposits to discourage dollarization (Structural Benchmark, October 2015).
- Introduce differentiated provision requirements for new foreign exchange loans provided by banks to limit their exposure to foreign exchange risk. The increase will be introduced in two steps to avoid stressing the banking system. As a first step, the NBKR will adopt regulations by end-March to be implemented by early May: (i) increase provision requirement for new foreign exchange loans to clients earning over 75 percent of their income in foreign exchange to 2.5 percent; (ii) increase provision requirement for new foreign exchange loans to clients earning between 50 and 75 percent of their income in foreign exchange to 5 percent; and (iii) increase provision requirement for new foreign exchange loans to clients earning under 50 percent of their income in foreign exchange to 7.5 percent (Prior Action).

Following the assessment of the impact of the first step, if assessed necessary, step two would be: Increase provision requirements by 2.5 percent for all categories by September 2015.

- Adopt a debt service to income ratio of 50 percent for new consumer loans (Prior Action). The NBKR will also pay close attention to mortgage loans, constituting 10 percent of the overall bank portfolio, of which 75 percent is in foreign currency. If need be, macro prudential measures could be extended to them.

- Currently, MFIs lend in som and need a specific license to lend in foreign currency. As of now, only one MFI has a license and it has not been used yet. The NBKR will monitor closely the activities of the MFIs and in case of an increase of foreign exchange loans, we will extend the above measures to them.

- We will pursue additional measures aimed at strengthening banking supervision and ensuring the effective implementation of the macro-prudential measures listed above. In addition to intensifying onsite/offsite supervision we will strengthen the monitoring of banks' direct and indirect exposure to foreign exchange risks through: (i) improved reporting/disclosure rules for banks and their borrowers' open positions in foreign currency; (ii) a requirement to conduct monthly surveys of banks' and their borrowers' foreign exchange exposures (by banks themselves and by supervisory authorities); (iii) strict enforcement of the limits on net open foreign exchange positions; and (iv) strict enforcement of the rules on registering all loans with the credit bureau.

23. A strong communication strategy would be critical to enhance monetary policy traction. Such a strategy would among others include: (i) communicating monetary policy intentions to public on frequent and regular basis; (ii) preparing and publishing a long-term monetary policy strategy document consistent with the current regime clearly defining nominal anchor; and (iii) publishing short notes on newly released macroeconomic data on inflation with basic background analysis.

24. Going forward we will continue to limit foreign exchange interventions to smoothing excessive volatility in support of our monetary policy. We will aim for greater exchange rate flexibility in order to preserve foreign reserves, support monetary policy objectives, external adjustment, and act as a shock absorber to terms of trade shocks. Given the Kyrgyz Republic vulnerability to external shocks, we will aim for a level of reserves above three months of imports during the course of the program. We will continue to enhance our communication policy in support of our foreign exchange operations.

25. We aim to strengthen the resilience of the bank-dominated financial sector, particularly given that rapid credit growth is taking place in the context of economic slowdown and currency depreciation. To this end we will carry out the following reforms, informed by the 2013 FSAP update findings:

- Issue a decision to harmonize the standard minimum capital requirement to level the playing field among banks by gradually raising bank capital requirement in three steps by 2017 (Structural Benchmark, May 2015).

- Strengthen the monitoring of foreign exchange bureaus by bringing them under NBKR supervision through the introduction of mandatory reporting requirement to NBKR.

- Submit to parliament a draft amendment to the Administrative Responsibility Code increasing the penalty for unlicensed foreign exchange activity to 50,000 som for individuals, 100,000 som for corporate officers, and 200,000 som for legal entities to deter infringement (Structural Benchmark, May 2015).

- Finalizing the audit of DEBRA (Structural Benchmark, October 2015) and liquidating the banks under its management with a goal of winding down DEBRA's assets. The NBKR with assistance from the World Bank shall be responsible for the execution of the tender and the selection of an international audit company to carry out the special audit of DEBRA under the SECO funded Financial Sector Development Project.

- Pending the liquidation of DEBRA, we will refrain from merging it with the Deposit Protection Agency (DPA).

- Issue implementing regulations following the recent passage by parliament of the Payment System law.

- Establish a formal crisis preparedness framework including assigning responsibility for financial stability to the NBKR, developing a comprehensive crisis management plan for the banking sector, ensuring that appropriate MOUs are in place between the relevant agencies, preparing financial crisis contingency plan by each agency and conducting periodic crisis intra- and inter-agency simulation exercises. We will need IMF technical assistance in this context.

26. The Government and NBKR are committed to make every effort for the adoption of the banking code in a form substantially similar to the draft submitted to parliament in September 2013. The banking code is essential to facilitate the stability and development of the financial sector. It fixes problems in existing bank legislation, especially with respect to strengthening the NBKR independence, and converting the existing patchwork bank resolution framework into a single strengthened regime. To this effect, the code will: (i) only be superseded by the Constitution or Constitutional Laws; (ii) preserves the autonomy of the NBKR; (iii) improve the framework for early intervention and resolution of problem banks; (iv) enhance legal protection for NBKR staff; (v) limit the scope of judicial review for decisions taken by the NBKR with respect to license revocation and bank resolution; (vi) establish the NBKR as the sole authority to hold and manage official foreign reserves; (vii) extend the term of engagement of the NBKR external auditors; and (viii) strengthens the internal oversight of the NBKR. We understand that progress in that area would be necessary to move forward with the program.

27. We are stepping up our work on anti-money laundering and combating the financing of terrorism (AML/CFT) issues. In this regard we are working with parliament on a new version of the draft AML/CFT law to bring it in line with the 2012 FATF standard. This is a necessary measure, particularly as it would complement our ongoing efforts to strengthen the anti-corruption framework, by ensuring proper detection and recovery of proceeds of corruption. With a view to implementing the 2012 FATF recommendations in the legal framework of the Kyrgyz Republic, we have requested technical assistance from Fund staff, aiming in particular at implementing risk-based AML/CFT supervision, and strengthening operations of the Financial Intelligence Unit.

D. Institutional and Structural Reforms to Ensure Broad-Based Growth

28. We believe that structural reforms help accelerate growth make it more inclusive. We will carry out reforms in the following areas:

- *Revenue administration.* We will carry out a reform of the State Tax Service and strengthen the Large Taxpayer Unit (LTU) by: (i) reorganization of the institutional structure of the tax service reducing duplication of functions with respect to interregional tax service departments (Structural Benchmark, April 2015); (ii) analyzing the taxpayer population to determine the optimum number of taxpayers administered by the LTU; and (iii) providing LTU coverage of all large taxpayers and electronic filing by such taxpayers.

- *Strengthening PFM reforms*. We will redouble efforts on PFM reforms, especially on the. introduction of the Treasury Single Account (TSA) This includes selecting a provider for integrating the automated national treasury system with the interbank payment system (Structural Benchmark, September 2015). In the regard, we will work on integrating existing automated national treasury system with the interbank payment system by the end of 2015. Additionally, we will undertake every effort to have the budget code enacted by parliament.

- *Business environment*. We have identified the following measures to improve the institutional and regulatory environment by addressing key weaknesses identified by the World Bank doing business report, including: starting a business and streamlining the licensing process and inspection regime; registering property; and protecting investors. Monitoring the business environment via regular business surveys will also be critical to identifying obstacles and bottlenecks to growth.

- *Combating corruption and enhancing governance*. One of the government's key priorities is to combat corruption and enhance governance. To this effect we will enact the procurement law currently in parliament along with supporting bylaws and regulations and submit a request to join the Council of Europe's Criminal Law Convention on Corruption, Civil Law Convention on Corruption and the Additional Protocol to the Criminal Law Convention on Corruption with the aim of becoming a member of the Group of states against corruption (GRECO).

- *Development of regional trade*. We aim to protect the Kyrgyz Republic's liberal economic regime as we join the EEU and to leverage it to achieve competitive advantage. To this end, we will maintain progress on structural reforms aimed at improving the business environment and increasing state efficiency. Success will hinge on how the EEU's rules and regulations are implemented and whether market-led momentum follows. To resolve the issue of elimination of customs control for goods and transport vehicles moving across the Kyrgyz-Kazakhstani part of the state border, measures will be implemented to equip air check points in the Kyrgyz Republic (Manas, Osh), car check points Irkeshtam, Torugart, and test laboratories. We will continue work on the EEU policy unit to make forecasts, design policies and develop negotiations positions not only for accession but also after.

E. Safeguards Assessment

29. We recognize the importance of completing an updated safeguards assessment of the NBKR by the first review under the ECF arrangement. The NBKR will provide the Fund staff all the requested information needed for the assessment, including the authorization to speak with its external auditor and stands ready to receive a safeguards mission, if needed. We are also committed to prepare and implement an action plan with regard to agreed recommendations emerging from the safeguards assessment and include priority ones in future measures under the Fund-supported program. We also agree to update the June 14, 2011 memorandum of understanding between the ministry of finance and the NKBR on the management of foreign exchange reserves, including those for budgetary support.

III. PROGRAM MONITORING

30. The Fund-supported program will be monitored through prior actions, quantitative performance criteria, indicative targets, and structural benchmarks. Prior actions and structural benchmarks are set out in Table 1; the quantitative targets (performance criteria and indicative targets) and continuous performance criteria are set out in Table 2. The reviews will be conducted semi-annually based on end-June and end-December test dates. The first review should be completed by December 15, 2015 based on continuous and end-June 2015 quantitative performance criteria. The second review is expected to be completed by June 15, 2016 based on continuous and end-December 2015 quantitative performance criteria. The understandings between the Kyrgyz authorities and IMF staff regarding the quantitative performance criteria and the relevant structural measures described in this memorandum and reporting requirements are further specified in the technical memorandum of understanding attached to this memorandum.

Table 1. Kyrgyz Republic: Prior actions and Structural Benchmarks Under the Extended Credit Facility

Measure	Timing	Macroeconomic Rationale
Prior actions		
Adopt the following regulations by end-March: (i) Increase provision requirement for new foreign exchange loans to clients earning over 75 percent of their income in foreign exchange to 2.5 percent. (ii) Increase provision requirement for new foreign exchange loans to clients earning between 50 and 75 percent of their income in foreign exchange to 5 percent. (iii) Increase provision requirement for new foreign exchange loans to clients earning under 50 percent of their income in foreign exchange to 7.5 percent.		Restrain credit growth and dollarization and thus reduce vulnerabilities in the banking sector.
Adopt debt service to income ratio of 50 percent for new consumer loans.		Restrain credit growth and dollarization and thus reduce vulnerabilities in the banking sector.
Structural Benchmarks		
I. FISCAL POLICY		
Elaborate a MTDS including the following criteria: (i) restrict borrowing to projects which enhance growth and promote social developments (ii) maintain debt at sustainable levels, and (iii) ensure that borrowing is anchored in the medium-term fiscal framework and is consistent with macroeconomic stability	End-April 2015	Improve debt management
Undertake a review of the public investment framework in cooperation with development partners and line ministries to identify gaps and then define an action plan.	End-December, 2015	Improve the efficiency, quality and cost effectiveness of the public investment process.
Submit to parliament a draft tax law on (i) strengthening the VAT by reducing the number of exemptions, (ii) gradually phasing out the sales tax; (iii) gradually limiting the use of the patent system; (iv) adopting a simplified recordkeeping and reporting requirements.	End-June, 2015	Raise tax revenues while setting up more efficient tax policy.
Draw an action plan for the reform of public sector personnel and remuneration policy to reduce the wage bill as a share of GDP.	End-December, 2015	Streamline expenditure and rationalize public sector wages.
Reorganize the institutional structure of the tax service reducing duplication of functions with respect to interregional tax service departments.	End-April, 2015	Improve tax administration efficiency.
Selecting a provider for integrating the automated national treasury system with the interbank payment system	End-September, 2015	Optimize spending by strengthening the treasury's ability to conduct prudent expenditure management.
II. FINANCIAL SECTOR		
Finalizing the audit of DEBRA.	End-October, 2015	Speed up the liquidation process of problem-banks and DEBRA.
Set higher reserve requirements for foreign exchange deposits than for domestic currency deposits.	End-October, 2015	Contain credit growth and dollarization and enhance resilience of the financial sector to currency fluctuations.
Submit to parliament a draft amendment to the code for administrative responsibility increasing the penalty for unlicensed foreign exchange activity to som 50,000 for individuals, som 100,000 for corporate officers, and som 200,000 for legal entities.	End-May, 2015	Prevent exchange rate volatility by better controlling foreign exchange bureaus.
Issue a decision to harmonize the standard minimum capital requirement by gradually raising banks' paid-in capital in three steps by 2017.	End-May, 2015	Level the playing field among banks.

Table 2. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, December 2014–December 2015

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

	2014	2015			
	December	March	June	September	December
			QPC	Indicative Targets	QPC
Quantitative performance criteria 1/					
1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars)	1,515	1,363	1,371	1,349	1,325
2. Ceiling on net domestic assets of the NBKR (eop stock)	-26,518	-14,700	-10,127	-10,583	-14,200
3. Ceiling on cumulative overall deficit of the general government 2/	-931	11,273	19,441	22,189	18,062
4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/	0	0	0	0	0
5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	0	0
Indicative Targets 1/					
1. Ceiling on reserve money	64,472	67,058	72,121	70,313	65,279
2. Cumulative floor on state government tax collections 2/	82,639	16,963	36,821	61,345	92,361
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit and Monthly Social Benefit programs 2/	4,114	1,080	2,161	3,286	4,412

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ As defined in the TMU.

2/ Cumulative from the beginning of the year.

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

Attachment II. Technical Memorandum of Understanding

March 24, 2015

I. Introduction

This memorandum defines the quantitative performance criteria, indicative targets and adjustors, and establishes the content and frequency of the data to be provided to IMF staff for program monitoring related to the economic program supported by an arrangement under the Extended Credit Facility (ECF). The indicators presented in Table 1 of the Letter of Intent dated March 24, 2015 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

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

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.

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

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.

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.

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

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

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

Valuation changes (program exchange rates). For program monitoring, U.S. dollar-denominated components of the NBKR's balance sheets will be valued at the program exchange rates. The program exchange rate of the KGS to the U.S. dollar is set as of February 17 of 2015 exchange rate of KGS 60.7523 = US$1. The corresponding cross exchange rates and program gold price for the duration of the program are provided in Table 2.

B. Quantitative Performance Criteria

Floor on net international reserves of the NBKR in convertible currencies

Definitions

Net international reserves (NIR) of the NBKR. The floor on NIR will be calculated as the difference between total international reserve assets and total international reserve liabilities of the NBKR in convertible currencies. Total international reserve assets of the NBKR are defined as the NBKR holdings of monetary gold, holdings of SDRs, reserve position in the IMF, and any holdings of convertible foreign currencies in cash or with foreign banks, and debt instruments issued by nonresidents that are liquid. Accrued interest on deposits, loans, and debt securities are included in reserve assets and liabilities, correspondingly. Reserve assets pledged as collateral or otherwise encumbered, capital subscriptions in foreign financial institutions, deposits of resident financial institutions (commercial banks and deposits earmarked for the Russia-Kyrgyz fund) in foreign currency and illiquid assets of the NBKR are excluded from NIR. Also excluded are net forward positions, defined as the difference between the face value of foreign-currency denominated NBKR off-balance sheet claims on nonresidents and foreign currency obligations to both residents and nonresidents. Total international reserve liabilities of the NBKR in convertible currencies are defined as the sum of Kyrgyz Republic's outstanding liabilities to the IMF and other convertible currency liabilities to nonresidents with an original maturity of up to and including one year. NIR is not affected when foreign assets are received by the NBKR through foreign currency swaps with resident 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. 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$1,515 million on December 31, 2014. Net international reserves including deposits of resident financial institutions in foreign currency amounted to US$1,625 million on December 31, 2014.

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

Adjustors

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

Ceiling on the net domestic assets of the NBKR

Definitions

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.

Thus defined, NDA consist of: (a) net claims to the general government from the NBKR; (b) net claims to other depositary corporations by the NBKR; (c) net claims on other financial corporations; and (d) all other net assets of the NBKR (other items net). Thus defined, the stock of NDA amounted to minus KGS 26518 million on December 31, 2014.

Adjustors

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

Ceiling on the cumulative overall cash deficit of the general government

Definitions

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

- The change in the stock of net claims of the domestic banking system and nonfinancial institutions and households on the general government. The change in the stock of net claims of the domestic banking system on the general government is defined as the change in the stock of the banking system claims on the general government, less the change in the stock of all deposits of the general government with the banking system. The claims of the banking system on the general government include: bank loans to the general government; any securities issued by the general government and held by domestic banks and overdrafts on the current accounts of the general government with banks;
- The change in the stock of net claims of foreign governments, banking systems, and nonfinancial institutions and households on the general government;
- Net transactions in equity, i.e., any new sales net of purchases of shares;
- Net foreign loans disbursed to the general government for budgetary support; and
- Net foreign loans disbursed to the general government for PIP financing.

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

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

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

Definitions

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:

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

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

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

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

- 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.

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

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.

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.

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.

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

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

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

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

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

D. Analytical Balance Sheet of the NBKR

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

E. Monetary Survey

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

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.

F. International Reserves and Key Financial Indicators

The NBKR will provide monthly data within 20 days from the end of the month on its gross and net international reserves within the framework of reporting "International Reserves and Foreign Currency Liquidity" (IMF's SDDS). 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.

G. External Debt

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

H. Budgetary and Extra Budgetary Data

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.

I. Balance of Payments Data

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

J. Other General Economic Information

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
(Included in the public sector)

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

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

Abbreviation	Currency Name	Currency/US$	US$/Currency
AUD	Australian Dollar	1.2926	0.7736
AMD	Armenian Dram	479.6865	0.0021
CAD	Canadian Dollar	1.2525	0.7984
CNY	Chinese Yuan	6.2477	0.1601
CNH	Chinese Yuan	6.2517	0.1600
JPY	Japanese Yen	119.0568	0.0084
KZT	Kazakh Tenge	185.0512	0.0054
KWT	Korean won	1,100.5851	0.0009
KWD	Kuwati dinar	3.3824	0.2956
KGS	Kyrgyz Som	60.7523	...
NOK	Norweigan Crown	7.6020	0.1315
RUB	Russian Ruble	62.6635	0.0160
SAR	Saudi Rial	4.6076	0.2170
SGD	Singapore Dollar	1.3585	0.7361
SEK	Swedish Crown	8.4426	0.1184
CHF	Swiss Franc	0.9293	1.0760
AED	UAE Dirham	3.6779	0.2719
GBP	UK Pound Sterling	0.6508	1.5366
SDR	SDR	0.7096	1.4092
XAG	Silver	0.0579	17.2700
BYR	Belarusian Ruble	15,318.2804	0.0001
EUR	Euro	0.8757	1.1420
XAU	Gold (US$/troy ounce)	1,229.2500	...

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

	2015 1/				2016 1/	
	March	June	September	December	March	June
Program grants	11.3	54.8	54.8	142.8	19.6	33
Program loans	13.8	27.5	27.5	57.9	13.2	27
Other grants	37.5	75.0	112.5	150.0	62.5	125
Public investment program loans	149.9	299.9	449.8	599.7	156	312
Amortization of public external debt	18.0	36.0	54.0	72.0	26.6	53.3
Interest payments	12.3	24.6	37.0	49.3	11.5	23.0

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 gross and net international reserves 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	Revenue, expense, net lending, onlending and composition of financial assets and liabilites-central government	Montlhy	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
NBKR	Remittances	Monthly	Within 45 days of the end of each month
NSC	Consumer Price Index by category	Monthly	Within 15 days of the end of each month
NSC	GDP	Monthly	Within 30 days of the end of each month

INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

March 25, 2015

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—INFORMATIONAL ANNEX

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

CONTENTS

RELATIONS WITH THE FUND

(As of February 28, 2015)

Membership status: Joined: May 08, 1992 Article VIII

General resources account:	**SDR million**	**% Quota**
Quota	88.80	100.00
Fund holdings of currency (Exchange Rate)	88.80	100.00
Reserve Tranche Position	0.00	0.01

SDR department:	**SDR million**	**% Allocation**
Net cumulative allocation	84.74	100.00
Holdings	120.73	146.19

Outstanding purchases and loans:	**SDR million**	**% Quota**
ESF Arrangements	28.31	31.88
RCF Loans	22.20	25.00
ECF Arrangements	76.37	86.00

Latest financial arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Jun 20, 2011	Jul 07, 2014	66.60	66.60
ESF	Dec 10, 2008	Jun 09, 2010	66.60	33.30
ECF [1/]	Mar 15, 2005	May 31, 2008	17.76	17.76

[1/] Formerly PRGF.

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

	Forthcoming				
	2015	2016	2017	2018	2019
Principal	10.09	14.97	18.27	20.68	17.52
Charges/Interest	0.00	0.00	0.03	0.02	0.14
Total	10.09	14.97	18.30	20.69	17.66

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

Status of HIPC and MDRI assistance

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

Safeguards assessments

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

Exchange rate arrangements

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

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

Article IV consultations

The Kyrgyz Republic is on the 24-month consultation cycle. The 2013 Article IV consultation discussions were held in March–April 2013 and were completed by the Executive Board in June 2013 (see Country Report No. 13/75).

FSAP participation and ROSC assessment

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

Resident representative

The ninth resident representative of the Fund in the Kyrgyz Republic, Mr. Sobolev, took up his post in Bishkek in November 2013.

RELATIONS WITH THE WORLD BANK GROUP

(As of March 19, 2015)

World Bank Group strategy: The CPS for FY14–17: The joint WB/IFC CPS was reviewed by the Board on July 25, 2013. Its strategic goal is to help reduce extreme poverty and promote shared prosperity through support for improved governance. This governance-oriented approach focuses on three dimensions of the relationship between the state and the citizen, which correspond to three broad areas of engagement—public administration and public service delivery, business environment and investment climate, and the management of natural resources and physical infrastructure. IFC's primary focus would be the second and potentially the third areas of engagement, contributing to the CPS agenda by promoting private sector development through investment and advisory services that encourage diversification and competitiveness.

Since the Kyrgyz Republic joined the World Bank in 1992, the Bank has approved US$1.3 billion for International Development Association (IDA)-funded projects and Recipient Executed Trust Funds (RETFs), out of which US$1.1 billion has been disbursed. To date, 47 IDA investment operations for US$1 billion have been completed and closed. The Kyrgyz Active Portfolio includes 10 IDA projects and 14 RETFs for a total amount of US$295.74 million. From 1992 until 2000, the Kyrgyz portfolio had a significant focus on budget support; since 2001, however, there has been a gradual shift toward investment projects till 2010. To achieve macroeconomic stability in the country after political turmoil in April 2010, the Kyrgyz Government requested the Bank to provide budget support. There have been tree budget support operations since the July 2010 Donors Conference and the multiyear programmatic budget support program is envisioned till FY17.

IDA financed operations: Under the CPS, the following operations were delivered in FY15: the Electricity Supply Accountability and Reliability Improvement Project (US$25 million equivalent) and the Pasture and Livestock Management Improvement Project (US$15 million equivalent). The Third Village Investment Project (US$12 million equivalent) and Climate Adaptation and Mitigation Program for Central Asia (US$5 million equivalent) are scheduled for Board discussion in the end of FY15. Energy Sector Development Policy Operation (US$24 million equivalent) was not scheduled under the CPS, but was delivered in January 2015 in response to the Kyrgyz Government request for urgent support in addressing the recurrent winter energy shortages.

The following operations are planned to be delivered in FY16: the Fiscal Management and Governance Development Policy Operation (US$24 million equivalent), the Integrated Forest Ecosystem Management Project (US$12 million equivalent), and the Urban Planning and Development Project (US$12 million equivalent) and the Rural Water Supply and Sanitation Project - 3 (US$13 million equivalent).

Trust funds: In addition to the IDA portfolio, the Kyrgyz program includes a significant number of cofinancing and stand-alone trust funds (TFs). Currently, the RETFs Portfolio has a total value of about US$60 million, out of which US$19.8 million has been disbursed. Two sectors—Agriculture and Rural Development and Public Sector Management—receive most of the TFs. The largest TFs are the Agricultural Productivity Assistance Project (US$6.85 million), and Capacity Building in Public Financial Management (US$7.49 million), Kyrgyz Global Partnership for Education (US$12.7 million) and Kyrgyz Health Results Based Financing (US$11 million). TFs are mainly provided to co-finance

IDA operations and to support capacity-building activities. The main contributors to the TFs have been the European Union (EU), Switzerland, Russia, and the United Kingdom.

Analytical advisory activities: These include continuation of programmatic PER and technical assistance (TA) in number of sectors, including mining sector business environment; railways trade link; analytical poverty work; Chamber of Accounts to enhance the public procurement audit methodology; public sector reform roadmap; PSD policy dialogue; agribusiness study; and conflict filter.

IFC program: Since becoming a member of IFC in 1993, the Kyrgyz Republic has received commitments totaling more than US$117.7 million from IFC's own funds to finance 36 projects in the financial sector, including banking and microfinance, mining sector, agribusiness, as well as in the pulp and paper sectors. As of June 30, 2014, IFC's committed portfolio stood at US$30.5 million, which includes investments in financial markets and manufacturing sectors.

IFC strategy: IFC's role in the WBG Country partnership Strategy for the Kyrgyz Republic is to support the development and diversification of the private sector, contributing to country's greater competitiveness, and improving employment opportunities. IFC prioritizes activities aimed at improving the investment climate, increasing access to finance and promoting corporate disclosure standards, while at the same time exploring a greater role in energy efficiency and renewable energy and looking for opportunities in the area of PPP jointly with IDA. In the banking sector, IFC aims to increase access to finance for MSMEs by improving regulatory framework, strengthening local financial institutions, expanding microfinance organizations, and providing credit lines for MSME financing to local banks. In the real sector, IFC aims to improve corporate business practices, while looking for emerging opportunities to invest across variety of sectors, particularly in agribusiness, mining, and infrastructure.

IFC advisory programs implemented in the Kyrgyz Republic focus on: i) improving financial markets infrastructure, specifically credit information sharing systems and risk management education; (ii) institutional and capacity building of financial intermediaries; (iii) microfinance and housing microfinance development; (iv) investment climate and tax administration; (v) improving corporate governance in local companies; (vi) improving agri-financing; and (vii) designing public-private partnership projects, currently in health and power sectors.

MIGA program: MIGA's current portfolio in the Kyrgyz Republic consists of one project, financed by Austrian and Italian investors, in support of the country's manufacturing and services sector. The outstanding gross exposure from this investment is US$10.8 million.

ICSID: The Kyrgyz government lost an ICSID supported lawsuit relating to an expropriated hotel and defaulted on the required payment. In October, the Canadian court approved the confiscation of Kyrgyz holdings on the Toronto Stock Exchange. The Kyrgyz government has contested this decision.

RELATIONS WITH THE ASIAN DEVELOPMENT BANK (ADB)

(As of March 15, 2015)

The Kyrgyz Republic joined ADB in 1994. ADB approved the new Country Partnership Strategy (CPS) 2013–17 for the Kyrgyz Republic in August 2013. The CPS is aligned with the National Sustainable Development Strategy, 2013–17 approved by the President of the Kyrgyz Republic in January 2013 (NSDP). The overarching goal of the CPS is poverty reduction through inclusive economic growth. The CPS supports the government in addressing key constraints to growth and equitable access to economic opportunities. It focuses on: (i) public sector management for private sector development; (ii) transport and logistics; (iii) energy; (iv) education and training; and (v) water supply and sanitation (WSS). ADB has been active in these areas and within each sector will focus more strongly on addressing regional disparities. The Country Operations Business Plan 2015–17 was endorsed by the Board in December 2014.

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), which is allocated based on country performance assessments (CPA). The Kyrgyz Republic has been eligible for 50 percent grant and 50 percent ADF loan since 2009. ADB's annual lending began with US$40 million in 1994 and reached the peak level of US$169.1 million in 2014.

Based on the results of the 2014 CPA, the country received an ADF allocation of US$105.06 million for 2015–16, of which US$46.70 million in grant and US$58.37 million in loan. The allocations were reduced compared to 2013–14 ADF allocations as the ADF resource available under the performance–based allocations (PBA) in 2015–16 was reduced, mainly due to weakness of SDR, Yen, and Euro. An additional subregional ADF allocation of US$60 million for the Toktogul Rehabilitation Project Phase 3 has also been allocated. In 2014, the country received allocation of $137.1 million for project and US$32 million for program. As of 15 March 2015, the country has received 38 loans worth US$961.7 million, 24 ADF and one GEF grants worth US$451.1 million. The Kyrgyz Republic has also received eight grants from Japan Fund for Poverty Reduction (JFPR grants) amounting to US$8.5 million. ADB is the largest funding agency in the transport, energy and public sector management sectors. Four new projects, namely: Investment Climate Improvement Program, Subprogram 3 for US$22 million, Strengthening Education System Sector Development Program and Project, for US$10 million and US$12 million grant respectively, Toktogul Rehabilitation Phase 2 Project for US$110 million (US$65.5 million loan and US$44.5 million grant), CAREC Transport Corridor I (Bishkek-Torugart Road) Project 3—additional financing for US$15.1 million (US$10.8 million loan and US$4.3 million grant) were approved in 2014.

As of 15 March 2015, the active portfolio included 13 projects totaling US$611.8 million which are being implemented through 11 ADF loans (US$335.2 million) and 11 ADF grants (US$275.1 million) and one grant financed by the Japan Fund for Poverty Reduction grant (US$1.5 million).

ADB has also provided 88 technical assistance (TA) projects amounting to US$50.48 million as of today. ADB also provides TA through the regional technical assistance facility. Among the most recent assistance is technical assistance for developing an e-procurement strategy for the Kyrgyz

Republic, Support for Strategic Assessment of the Kyrgyz Economy, and Strengthening Government Capacity for Managing Development Projects.

The year-end performance of ADB's portfolio was satisfactory in 2014 with 78 percent projects on track. Contract awards and disbursements as of 31 December 2014 reached US$65.94 million and US$63.4million (86 percent and 102 percent of year's projections), respectively.

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

At the Thirteenth CAREC Ministerial Conference held in Bishkek in November 2014, a memorandum of understanding was signed between the cities of Almaty and Bishkek to jointly work on development of the Almaty—Bishkek Corridor.

By the end of 2014, cumulative direct value-added official co-financing for the Kyrgyz Republic since 1997 amounted to US$216.2 million for eight investment projects and US$3.1 million for eight technical assistance projects.

ADB private sector operations in the Kyrgyz Republic began in 2012 with the signing of a US$10 million SME loan to the Kyrgyz Investment and Credit Bank. ADB's Trade Finance Program (TFP) fills market gaps in trade finance by providing guarantees and loans through over 200 partner banks in support of trade. In December 2012, three banks in the Kyrgyz Republic signed TFP agreements including Demir Kyrgyz International Bank, Kyrgyz Investment and Credit CJSC, RSK Bank OJSC.

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

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

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

(As of March 1, 2015)

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 2015, the Bank signed 122 projects accounting for a net cumulative business volume of €572 million. The Bank's portfolio amounted to €275 million in 53 active projects. The current private sector portfolio ratio (as a percentage of the total portfolio) is 76 percent which is well above the Bank's 60 percent mandated ratio.

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

Fostering the private sector: The Bank's operations in support of local private enterprises took advantage of the ETC Initiative and recently created SME Department, which was instrumental in enabling the Bank to deliver a number of small projects with significant transition impact, particularly in the areas of corporate governance and business conduct. In 2014 and first two months of 2015 the Bank signed six corporate sector projects all with local SMEs.

- Under the Direct Lending Facility (DLF), in 2014 the Bank financed a local retail chain to support expansion and improve shop conditions; and a local property and hotel developer to complete the major construction and refurbishment works.

- Under the Medium-Sized Co-Financing Facility (MCFF), the Bank supported expansion to Jalalabad of one of the leading flour producing companies; financed two local construction companies, one to invest into expansion of its stone crushing and mortar product lines to increase efficiency and ensure acceptable product quality, and another to increase own fleet to maintain a continuous raw materials supply; supported a local resort to help modernize its wastewater treatment facility with the aim to reduce energy consumption and improve the resort's area and facilities.

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

- SBS works with international advisers with more than 15 years' experience in a particular industry or field. In visits over the course of 12–18 months, the advisers strive to transfer their know-how to receptive managers. The teaching of international best practices is tailored to the needs of the client, and can cover anything from restructuring, to marketing and design or financial management. SBS has undertaken 54 projects in the Kyrgyz Republic with companies in manufacturing, ICT, tourism, and agriculture. The majority of projects focused on improving marketing and sales, organization, operations, and financial management. The total donor commitment for these projects was approximately €3.13 million.

- SBS helps companies work with qualified local consultants on a range of projects, covering concerns from market research to strategic planning, quality management and certification or energy efficiency and environmental management. These projects are undertaken on a cost-sharing basis. SBS also work with the local consultancy sector, supporting professional capacity building to develop the skills of local consultants to enable them to serve the SME sector on a sustainable basis, and to introduce more sophisticated advisory services in areas such as quality management and energy efficiency. As of 1 March 2015, SBS Kyrgyz Republic has undertaken 844 projects, engaging 202 consultants. More than 65 percent of the enterprises assisted are located outside the main cities. Despite the difficult business climate, turnover increased in nearly 66 percent of SBS beneficiary companies in the year following project completion, while 45 beneficiaries secured external investments, for a total investment of €25 million. SBS Kyrgyz Republic is funded by the Swiss and the U.S. Governments which have contributed €4.5 million and €230,000 respectively.

Strengthening financial institutions: In 2014, the EBRD continued supporting the country's financial institutions. The Bank signed eight new loan agreements with local banks and MFIs, including six loan agreements in local currency as part of the Bank's Local Currency and Local Capital Market Initiative, a risk-sharing program supported by donor grants to catalyze local currency lending in the early transition countries (ETC). These also included the energy efficiency credit lines to four participating financial institutions provided under the US$20 million Kyrgyz Sustainable Energy Efficiency Facility (KyrSEEF) which is an example of an integrated approach combining policy dialogue, financing and TC-supported capacity building at local intermediaries, benefiting from donor-funded investment incentives. KyrSEFF offers to provide financing for small-size energy efficiency improvements in the residential, service, agribusiness, SME, and industry sectors.

The Bank also engaged in policy dialogue with the National Bank of the Kyrgyz Republic (NBKR) on supporting development of mobile banking regulation, and strengthening the NBKR capacity in monetary policy implementation. Jointly with KfW, the Bank initiated a technical assistance project to support further development of the local capital market.

Support for critical infrastructure: To build the institutional framework for sustainable operations of municipal services, the Bank strengthened its activities in municipal infrastructure projects and worked on implementation of a €20 million framework to improve water supply and wastewater treatment supported by co-financing grants from bilateral and multilateral donors. The framework was fully utilized by the end of 2014.

- Under this framework, the Bank continued implementation of the water rehabilitation projects in Bishkek, Osh, Djalalabad, Kara-Balta, Kant and Talas and in 2015 signed new water and wastewater project for Tokmok. The new loan of €2.0 million is co-financed by €3.1 million capital grant from the European Union's Investment Facility for Central Asia (EU IFCA) and will be used to finance critical water and wastewater infrastructure improvements in the City of Tokmok. The capital expenditure grant is required to meet IMF conditions for non-concessional 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 water companies. In 2014 the Bank extended the original framework by approving new €20 million to cover additional sub-projects in the following cities: Naryn, Batken, Cholpon-Ata, Balykchi, Karakol, Kara-Suu, Uzgen, Kizil-Kiya and second phases of water projects in Osh, Jalalabad and Talas.

- In 2013 the EBRD provided the first loan of €11 million to finance critical solid waste investments in Bishkek. The loan is co-financed by €3 million capital grant from the Bank's Shareholder Special Fund (SSF) and €8 million from the EU IFCA. The project will improve the city's solid waste management, including collection across the city, investment in an urgently needed sanitary landfill, and the closure of the existing dumpsite, which is at the end of its economic life. The project will help optimize solid waste collection including via acquisition of new trucks and containers and is expected to result in an improved level of public service, the introduction of waste recycling and environmental improvements. In addition substantial TC has been mobilized to assist the Bishkek municipality with development and implementation of resettlement and livelihood restoration in connection with the existing landfill. By end of 2015 the Bank intends to provide new loans of €3.5 million in total to finance critical solid waste investments in Osh and Djalalabad cities. The Bank loans will be co-financed by €7 million loans from the European Investment Bank and €9 million capital grants from EU IFCA.

- The Bank continued implementation of the Bishkek Public Transport project with 79 new high- and low-floor trolleybuses delivered to Bishkek by the end of 2014 and in the same year provided a new loan of €5.7 million for improvement of public transport system in the City of Osh. The loan was co-financed by €3.1 million capital grant from EBRD Shareholder Special Fund. For all municipal projects gender was taken into consideration with respect to improving equality of access to the new services.

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

- The Bank continued to actively engage in policy dialogue with the government and local authorities to promote the further reform agenda in corporate and infrastructure sectors, in particular transport sector reform.
- The Bank is providing support to the development of local capital markets through policy dialogue, TC deepening the market, and reducing financial institutions' funding mismatches, including in local currency.
- The Bank has been working on implementing TC to provide institutional capacity building support to the State Agency for Geology to support mining sector reform.
- The Bank continued its engagement with the government on public procurement improvement under the joint EBRD–UNCITRAL technical cooperation project designed to upgrade public procurement regulation in the CIS to the new UNCITRAL Model Law on Procurement of Goods, Construction, and Services.
- The Bank continues its support for renewable energy development including through TC to the Ministry of Energy and Industry to support the renewable energy framework, and a possible financing of a pilot mini-hydro project(s).

TECHNICAL ASSISTANCE PROVIDED BY THE FUND

(February 2003–March 2015)

Dept.	Subject/Identified Need	Timing	Counterpart
FAD	Improving the Effectiveness of the Large Taxpayer Unit	February 24–March 7, 2003	Ministry of Finance
	Treasury Management Information System	July 21–29, 2003	Ministry of Finance
	VAT on agriculture	November 3–11, 2003	Ministry of Finance
	Priorities for Tax Administration Reform	July 22–August 5, 2004	Ministry of Finance
	Supporting Tax Administration Reform and Installing New Expert Advisor	January 16–28, 2006	Prime Minister's Office
	Fiscal ROSC Reassessment (Fiscal Transparency Module)	September 11–25, 2007	Ministry of Finance
	Securing Tax Revenues During the Economic Downturn	March 9–20, 2009	Ministry of Finance
	Strengthening the Link between Fiscal Policy and Budget Preparation	October 12–23, 2009	Ministry of Finance
	Monitoring Expenditure Arrears; Adjusting the New BO-COA	October 20–23, 2009	Ministry of Finance
	IMF peripatetic assignment to support overall LTO (large taxpayer office) enhancement	February 22–March 12, 2010	State Tax Service
	Reviewing Treasury's Work and Advising the Authorities on COA Issues	February 15–18, 2011	Ministry of Finance
	Tax Policy Advice	April 20–May 4, 2011	Ministry of Finance, State Tax Service, and State Customs Service
	Reviewing Progress on COA Work	July 4–7, 2011	Ministry of Finance
	Public Financial Management	August 17–30, 2011	Ministry of Finance
	Tax Administration Diagnostic Mission (TPA TTF Module 6)	September 16–29, 2011	Ministry of Finance, State Tax Service,

Dept.	Subject/Identified Need	Timing	Counterpart
			and State Customs Service
	Unified Chart of Accounts	November 3–11, 2011	Ministry of Finance
	Public Finance Management	December 8–13, 2011	Ministry of Finance
	Tax Administration Reform	February 27–March 17, 2012	State Tax Service
	Tax Administration Enforcement (Module 6—TPA TTF)	September 14–24, 2012	Ministry of Finance, State Tax Service, and State Customs Service
	Public Finance Management	September 27–October 3, 2012	Ministry of Finance
	Public Finance Management	February 13–25, 2013	Ministry of Finance
	Tax Administration Enforcement (Module 6—TPA TTF)	April 11–24, 2013	Ministry of Finance, State Tax Service, and State Customs Service
	Pilot Mission on Fiscal Safeguards	April 22–24, 2012	Ministry of Finance
	Tax Administration in Transition	April 24–May 7, 2013	Ministry of Finance, State Tax Service, and State Customs Service
	Tax Administration Enforcement (Module 6—TPA TTF)	April 11–24, 2013	Ministry of Finance, State Tax Service, State Customs Service
	Fiscal Safeguards Pilot	April 22–24, 2013	Ministry of Finance
	Public Finance Management	August 13–23, 2013	Ministry of Finance
	Tax Policy	October 24–November 8, 2013	Ministry of Finance
	Tax Administration Enforcement (Module 6—TPA TTF)	November 19–23, 2013	Ministry of Finance, State Tax Service, State Customs Service

Dept.	Subject/Identified Need	Timing	Counterpart
	Tax Administration Enforcement (Module 6—TPA TTF)	January 8–22, 2014	Ministry of Finance, State Tax Service, State Customs Service
	Public Finance Management	May 2–13, 2014	Ministry of Finance
	Public Finance Management	December 5–18, 2014	Ministry of Finance
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	National Bank of the Kyrgyz Republic

Dept.	Subject/Identified Need	Timing	Counterpart
		March 20–30, 2006	
	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

Dept.	Subject/Identified Need	Timing	Counterpart
	Bank Resolution	August 10–19, 2010	National Bank of the Kyrgyz Republic
	Reserve Management	January 28–Febraury 9, 2013	National Bank of the Kyrgyz Republic
	Operational Advice on Improving the Monetary Policy Framework	March 22–29, 2012	National Bank of the Kyrgyz Republic
	FSAP Scoping Mission	April 1–5, 2013	National Bank of the Kyrgyz Republic
	FSAP update	July 1–15, 2013	National Bank of the Kyrgyz Republic
	Operational Advice on Improving the Monetary Policy Framework	February 3–14, 2014	National Bank of the Kyrgyz Republic
LEG	Review of Bank Legislation	March 1–4, 2004 April 26–May 6, 2004	National Bank of the Kyrgyz Republic
	Review of Tax Legislation	July 27–August 5, 2004	Ministry of Finance
	Assisting in drafting Tax Code	December 4–10, 2005	Prime Minister's Office
	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

Dept.	Subject/Identified Need	Timing	Counterpart
	AML/CFT capacity building	March 25–31, 2009	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	AML/CFT Follow-up	May 18–29, 2009	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	AML/CFT Follow-up	August 3–14, 2009	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	AML/CFT follow-up	September 22–25, 2009	State Financial Intelligence Service
	AML/CFT Follow-up	October 5–16, 2009	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	AML/CFT Follow-up	January 27–29, 2010	State Financial Intelligence Service
	AML/CFT Follow-up	February 22–March 4, 2010	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	AML/CFT Follow-up	January 18–20, 2011	National Bank of the Kyrgyz Republic and State Financial Intelligence Service

Dept.	Subject/Identified Need	Timing	Counterpart
	Legal Framework for Crisis Management and Bank Resolution	March 9–23, 2011	National Bank of the Kyrgyz Republic, Ministry of Finance, Deposit Protection Agency, Debt Enterprise Bank Resolution Agency, Ministry of Foreign Affairs, and Union of Banks
	Legal Frameworks for Bank Resolution	September 6–16, 2011	National Bank of the Kyrgyz Republic and Debt Enterprise Bank Resolution Agency
	AML/CFT Follow-up	October 17–21, 2011	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	Legal Frameworks for Bank Resolution and Central Banking	March 5–15, 2012	National Bank of the Kyrgyz Republic
	Legal Frameworks for Bank Resolution and Central Banking	December 11–20, 2012	National Bank of the Kyrgyz Republic
	AML/CFT Follow-up	February 2013	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	February 2014	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor

Dept.	Subject/Identified Need	Timing	Counterpart
	AML/CFT Follow-up	January 2015	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
STA	SDDS Subscription	January 28–February 5, 2004	National Statistical Committee
	Balance of Payments Statistics	March 15–29, 2004	National Bank of the Kyrgyz Republic
	Monetary and Financial Statistics	April 27–May 11, 2004	National Bank of the Kyrgyz Republic
	National Accounts Statistics	November 17–28, 2008	National Statistics Committee
	Government Finance Statistics	November 11–14, 2008	Ministry of Finance
	National Accounts Statistics	March 1–12, 2010	National Statistics Committee
	Government Finance Statistics	February 13–24, 2012	Ministry of Finance
	Private Sector External Debt Statistics	February 4–15, 2–12	National Statistics Committee and National Bank of the Kyrgyz Republic
	Price Statistics	February 18–March 1, 2013	National Statistics Committee
	Price Statistics	March 31–April 11, 2014	National Statistics Committee
	External Sector Statistics Mission	February 16–27,2015	National Bank of the Kyrgyz Republic

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

STATISTICAL ISSUES

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

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

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

National accounts

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

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

Price and labor market statistics

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

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

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

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

Government finance statistics

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

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

Monetary and financial statistics (MFS)

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

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

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

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

External sector statistics

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

Kyrgyz Republic: Table of Common Indicators Required for Surveillance

(As of March 13, 2015)

	Date of latest observation	Date received	Frequency of data[7]	Frequency of reporting[7]	Frequency of publication[7]	Memo Items: Data Quality Methodological Soundness[8]	Memo Items: Data Quality Accuracy and Reliability[9]
Exchange Rates	3/13/15	3/13/15	D	D	W		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	2/27/15	3/13/15	M	M	M		
Reserve/Base Money	3/13/15	3/13/15	D	D	M	LO, O, LO, LO	LO, O, O, LO, LO
Broad Money	1/31/15	3/13/15	M	M	M		
Central Bank Balance Sheet	3/13/15	3/13/15	D	D	M		
Consolidated Balance Sheet of the Banking System	1/31/15	3/13/15	M	M	M		
Interest Rates[2]	1/31/15	3/13/15	M	M	M		
Consumer Price Index	1/31/15	2/11/15	M	M	M	O, LO, O, O	LO, LO, O, O, O
Revenue, Expenditure, Balance, and Composition of Financing[3]—General Government[4]	1/31/15	2/15/15	M	M	A	O, LNO, LO, O	LO, O, O, LO, LO
Revenue, Expenditure, Balance, and Composition of Financing[3]—Central Government	1/31/15	2/15/15	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/31/14	1/28/15	Q	Q	Q		
External Current Account Balance	1/31/15	2/26/15	Q	Q	Q	LO, LO, LO, LO	O, LO, LO, LO, LO
Exports and Imports of Goods and Services	1/31/15	2/26/15	Q	Q	Q		
GDP/GNP	1/31/15	2/11/15	M	M	M	O, O, LO, O	LO, LO, LO, O, O
Gross External Debt	12/31/14	1/28/15	Q	Q	A		
International Investment Position[6]	10/1/14	2/20/15	Q	Q	Q		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.
[3] Foreign and domestic financing only.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions *vis-à-vis* nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I), Not Available (NA).
[8] Reflects the assessment provided in the data ROSC (published in November 2003, and based on the findings of the mission that took place during November 2002) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[9] Same as footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$92.4 Million Extended Credit Facility to Support the Kyrgyz Republic

The Executive Board of the International Monetary Fund (IMF) today approved a three-year arrangement under the Extended Credit Facility (ECF) for the Kyrgyz Republic in a sum equivalent to SDR 66.6 million (about US$92.4 million). The Board's approval enables the immediate disbursement of SDR 9.514 million (about US$13.2 million), while the remaining amount will be phased over the duration of the program, subject to semi-annual program reviews.

The new Fund-supported program will provide a macroeconomic framework that will support the authorities' efforts to reduce macroeconomic vulnerabilities stemming from a weak regional environment and dependency on gold and remittances.

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

"Despite Kyrgyz Republic's good performance under the 2011–14 Extended Credit Facility arrangement, important challenges remain. These include a weak regional economic environment that is weighing on growth; a high public debt resulting from an ambitious investment program; the transition to the Eurasian Economic Union; and heavy reliance on gold, remittances, and foreign aid. Moreover, further progress on the reform agenda is needed, particularly in the financial sector. The authorities' program, which will be supported by a new three-year Extended Credit Facility arrangement, aims to address these challenges by helping achieve fiscal and debt sustainability, ensure financial sector stability, and encourage structural reforms to boost the economy's growth potential.

"The fiscal strategy will play a critical role. It will consist of a pause in fiscal consolidation in 2015 to accommodate external shocks, followed by the resumption of the adjustment in 2016-17 to maintain public debt at a sustainable level. Strong tax measures to increase revenues as well as the streamlining of current expenditures will be essential to improve the operating balance. The elaboration of a new debt management strategy and the review of the public investment program are crucial to address the high public debt level.

"The central bank will focus on containing inflation by keeping the interest rate positive in real terms. It will also limit foreign exchange interventions to smoothing excessive volatility without resisting exchange rate trends.

"Structural reforms and improving the business environment will be essential to boost growth potential. Maintaining a sound banking sector is also critical. To that effect, the enactment of the banking code will be essential to ensure a robust bank resolution mechanism, by strengthening the independence of the central bank."

Annex

Recent Developments

The Kyrgyz Republic's performance under the 2011–14 ECF arrangement, which expired last July, was good. Nevertheless, the economy continues to face challenges associated with a weak regional economic environment, high public debt, and the transition to the Eurasian Economic Union. This, together with volatile growth and inflation, increases the economy's vulnerability to external shocks. Rapid credit growth, combined with high dollarization and a weakening *som*, place the banking sector at an elevated risk. Poverty and unemployment are still high. Weak institutions, political uncertainty, and a challenging business environment further hamper economic development. Dependence on gold, remittances, and foreign aid remains an obstacle for sustained and inclusive growth.

Program Summary

Fiscal policy will balance adjustment with large public investments needs. The pause in fiscal consolidation in 2015 will provide fiscal stimulus to offset the negative impact of the weak regional economic environment, whereas the consolidation effort in 2016–17 will ensure that the public debt will remain at sustainable levels. Avoiding a rapid buildup of debt in the future will necessitate a sound medium-term debt management strategy, complemented by a review of the public investment program.

The central bank will continue to focus on maintaining price stability through its newly introduced monetary policy framework. It will also continue to limit its foreign exchange interventions to smoothing excessive volatility without resisting exchange rate trends. A strong communication strategy is essential to the success of monetary policy.

Enhancing the resilience of the banking sector will be critical, particularly given the challenging economic environment. This would require the adoption of the banking code, in particular to strengthen the independence of the NBKR, the finalization of DEBRA Audit and the implementation of the remaining recommendations of 2013 Financial Sector Assessment Program. Strengthening banking supervision and implementing macro-prudential measures will help to contain vulnerabilities associated with rapid credit growth, high dollarization, and a weakening domestic currency.

Structural reforms will aim to promote broad-based and inclusive growth and reduce poverty by reforming tax administration, strengthening public financial management, improving the business environment for domestic and foreign investors, and combating corruption.

Kyrgyz Republic: Selected Economic Indicators, 2011–15

	2011	2012	2013	2014	2015
	Act.	Act.	Act.	Est.	Proj.
Real GDP (growth in percent)	6.0	-0.9	10.5	3.6	1.7
Nongold real GDP (growth in percent)	5.6	5.0	5.8	4.6	2.7
Consumer prices (12-month percent change,	5.7	7.5	4.0	10.5	10.1
Consumer prices (12-month percent change,	16.6	2.8	6.6	7.5	10.7
General government finances (in percent of					
Revenues	32.8	34.9	34.4	36.0	35.0
Of which: Tax revenue	18.5	20.6	20.5	20.8	20.8
Expense	32.0	33.0	31.1	30.3	29.7
Gross operating balance	0.8	1.9	3.3	5.7	5.3
Net acquisition of nonfinancial assets	5.3	7.6	7.0	5.5	9.3
Overall balance(net lending/borrowing)	…	…	…	0.2	-4.1
Overall balance including onlending	-4.6	-5.7	-3.8	-3.7	-7.6
Banking sector					
Reserve money (percent change, eop)	12.8	17.7	13.4	-11.9	1.3
Broad money (percent change, eop)	14.9	23.8	22.8	3.0	9.5
Credit to private sector (percent change, eop)	20.8	26.2	36.1	43.6	21.3
Credit to private sector (in percent of GDP)	11.7	13.5	16.1	20.7	22.4
External sector					
Current account balance (in percent of GDP)	-9.6	-15.6	-15.0	-13.7	-17.0
Export growth (percent change)	23.8	3.4	16.0	-16.3	-3.6
Import growth (percent change)	25.5	25.7	9.2	-5.9	-4.2
Gross International reserves (in millions of U.S.	1,831	2,061	2,226	1,856	1,665
Gross reserves (months of next year imports,	3.6	3.7	4.2	3.7	3.1
External public debt outstanding (in percent of	45.6	46.3	43.7	51.0	57.0

Sources: Kyrgyz authorities, and IMF staff estimates and projections.
1/ General government comprises State Government, Social Fund and Development Fund finances. State government comprises central and local governments.