

**FOR
AGENDA**

EBS/03/172

December 22, 2003

To: Members of the Executive Board

From: The Secretary

Subject: **Kyrgyz Republic—Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criterion**

Attached for consideration by the Executive Directors is a paper on the fourth review under the three-year arrangement under the Poverty Reduction and Growth Facility for the Kyrgyz Republic and the Kyrgyz Republic's request for a waiver of nonobservance of a performance criterion, which is tentatively scheduled for discussion on **Wednesday, January 14, 2003**. A draft decision appears on pages 22–24. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of the Kyrgyz Republic indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Saavalainen (ext. 38825), Mr. B. McDonald (ext. 36641), and Mr. Zeuner (ext. 37163) in MCD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Monday, January 5, 2004; and to the Asian Development Bank, the European Bank for Reconstruction and Development, the European Commission, the Islamic Development Bank, and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

**Fourth Review Under the Three-Year Arrangement
Under the Poverty Reduction and Growth Facility and
Request for Waiver of Nonobservance of Performance Criterion**

Prepared by the Middle East and Central Asia Department
(in cooperation with other Departments)

Approved by Julian Berengaut and Michael Hadjimichael

December 19, 2003

- Discussions for the fourth review under the Poverty Reduction and Growth Facility (PRGF) arrangement were held in Bishkek, October 24–November 6, 2003. Access under the arrangement is SDR 73.4 million (82.6 percent of quota). The mission also assisted the authorities in devising policies for their third annual Memorandum of Economic Policies (MEP) for the period October 1, 2003–September 30, 2004. The staff team consisted of Mr. Saavalainen (head), Mr. McDonald, Mr. Zeuner, and Ms. Savova (EU2); Mr. Aiyar (PDR), and Mr. Ogata (FAD). Mr. Mukhopadhyay (Resident Representative) and Mr. Dubashev of the Bishkek office assisted the mission. Mr. Zurbrugg (Executive Director) participated in key meetings during the final days of the mission.
- The mission met with President Akayev, Prime Minister Tanaev, Deputy Prime Minister Otorbaev, Minister of Finance Abildaev, National Bank Chairman Sarbanov, other senior officials, members of parliament, and representatives of civil society and the business community.
- The Executive Board completed the third review on July 16, 2003. At that time, Directors commended the authorities for their continued good performance under the program, noting that output growth had resumed, inflation remained low, and the external position had strengthened. They stressed the need for continued strong program performance to support growth and alleviate poverty. Directors appreciated the improved tax collection and containment of nonpriority public expenditures, which had facilitated higher social spending. They welcomed the extension of the VAT to large-scale agriculture and the adoption of a new real property tax, which would broaden the tax base, and urged the authorities to quickly put in place the implementing regulations. Directors noted that the external debt burden remained high and that further Paris Club debt relief was needed for debt sustainability.
- Relations with the IMF, World Bank, Asian Development Bank, and European Bank for Reconstruction and Development are summarized in Appendices I–IV, and the Fund's provision of technical assistance is described in Appendix V. The periodicity, availability, and quality of economic statistics are satisfactory and are described in Appendix VI.
- Outreach work conducted by area department missions and the resident representative office comprises media contacts and meetings with representatives of civil society and the diplomatic and business communities.

Contents	Page
Executive Summary	4
I. Performance Under the Program	5
II. Policy Discussions	10
A. Fiscal Policy	12
B. Monetary and Exchange Rate Policies	14
C. External Policies	15
III. Structural Reform	16
IV. Program Monitoring	19
V. Staff Appraisal	19
Boxes	
1. The Case for Fiscal Adjustment in the Kyrgyz Republic	10
2. The 2004 Budget and Fiscal Program	13
3. Additional Tax Policy Measures in 2004	14
4. Debt Sustainability	16
5. Banking Sector Reform	18
Text Tables	
Poverty Indicators, 1998–2002	5
Selected Financial Indicators, 2000–03	8
Saving-Investment Balance Summary, 2000–06	11
Key Macroeconomic Indicators, 2002–04	11
Text Figures	
Real GDP Growth and 12-Month CPI Inflation	5
Exchange Rate Developments, 1995–2003	6
Deposit and Credit Growth	9
Business Environment in the Kyrgyz Republic and CIS: 1999, 2002	17
Tables	
1. Second-Year Quantitative Program Targets	25
2. Structural Performance Criteria and Benchmarks Through End-September 2003	26
3. Selected Economic Indicators, 2000–06	27
4. Saving-Investment Balance, 2000–06	28
5. General Government Finances, 2001–06	29
6. State Government Finances, 2001–06 (in millions of soms)	30
7. State Government Finances, 2001–06 (in percent of GDP)	31

8. Social Fund Operations, 2001–06	32
9. Medium-Term Expenditure Framework for General Government by Functional Classification, 2000–07	33
10. NBKR Accounts, 2002–04	34
11. Monetary Survey, 2002–04	35
12. Quarterly Balance of Payments, 2002–04	36
13. Medium-Term Balance of Payments, 2000–10	37
14. Indicators of Fund Credit, 2001–07	38
15. Prospective Use of Fund Resources, 2003–06	39

Figure

1. Performance Under the Program (December 2001–September 2003).....	7
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Attachments

I. Letter of Intent	40
II. Third-Year Memorandum of Economic Policies	41

Annex

Technical Memorandum of Understanding	57
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Appendices

I. Fund Relations	73
II. Relations with the World Bank Group	75
III. Relations with the Asian Development Bank	78
IV. Relations with the European Bank for Reconstruction and Development (EBRD).....	79
V. Technical Assistance Provided by the Fund, December 2001–November 2003	81
VI. Statistical Issues	82

EXECUTIVE SUMMARY

Solid policy implementation has contributed to good macroeconomic performance over the first two years of the PRGF arrangement. Growth has returned to a 5 percent path after a temporary supply shock in 2002. Inflation has stayed below 4 percent since 2001. Several years of fiscal consolidation and sound monetary management underlie the stabilization and have kept the external debt strategy on track. Poverty rates have declined. Still, the economy faces significant uncertainties: policies may be strained in the run-up to the 2005 parliamentary and presidential elections, while high debt and declining gold production pose medium-term risks for growth, the balance of payments, and poverty reduction. In addition, as a land-locked country, export growth continues to be constrained by widespread trade restrictions in the region.

The response requires, inter alia, continued sound macroeconomic policies—in particular, fiscal discipline—and strong progress in governance, banking sector, and energy sector reforms. A successful final year of the current arrangement and agreement on a successor PRGF arrangement could set the stage for the Paris Club debt stock relief in early 2005 that is critical for debt sustainability and sustained growth.

All end-September 2003 performance criteria (PC) under the program were observed, except that the fiscal deficit target was exceeded by a small margin. This breach occurred because an external grant was not received as programmed. The state government tax revenue target was observed with a small margin, while other PCs were met comfortably. Progress under the program's structural reform agenda was satisfactory.

Discussions focused on the economic program for the last year under the PRGF. Declining gold production is expected to lead to slower growth (4.1 percent) and a wider current account deficit in 2004. The program calls for further fiscal consolidation (by ½ percentage point of GDP) based largely on higher tax revenues resulting from the implementation of the VAT in the agriculture sector and the real property tax. The monetary program aims at maintaining inflation below 4 percent while providing adequate scope for increasing private sector credit.

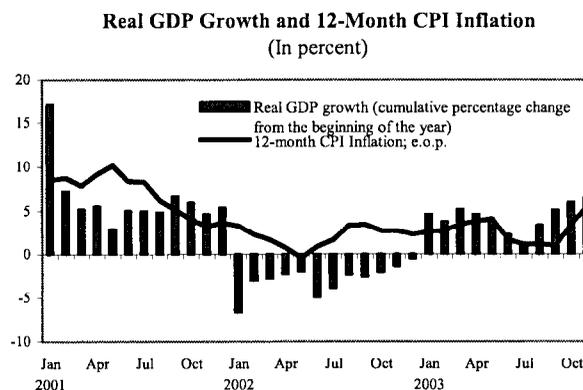
The structural reform agenda focuses on more effective implementation in the key areas of governance, banking, and the electricity sector. The National Integrity Council has begun operations and the recently established steering committee, with a professional Secretariat, should help drive reforms in this area. Key banking sector reforms include the privatization of Kairat bank, the completion of international audits of two other state-owned financial institutions, and improving further the legal framework for bank supervision. The authorities have begun monitoring the electricity sector quasi-fiscal deficit and are committed to substantially reducing the deficit in 2004. Efforts are underway by the international community to assist the countries of the region in improving regional cooperation.

I. PERFORMANCE UNDER THE PROGRAM

1. **Macroeconomic performance is highly satisfactory and broadly in line with earlier staff projections (EBS/03/95).** Following zero growth in 2002, in the first

ten months of 2003 real GDP increased by 6 percent, led by the recovery of gold and energy production. Industrial production, excluding the Kumtor gold mine and the energy sector, increased by 4½ percent, and the agriculture sector grew by 3½ percent. With low inflation expectations and growing confidence in the economy, money demand continued to increase, leading to a 8 percent appreciation of the local currency through September. Late in the year the regional wheat supply

situation spurred a sharp increase in prices for flour (15–20 percent) and bread (10 percent), raising the 12-month inflation rate to 2.6 percent at end-October. Short-term nominal interest rates were in single digits but bank lending rates—although declining—remained high, at around 20–25 percent.



2. **Recent statistics indicate progress in reducing poverty.** The expenditure-based poverty rate declined from 55 percent in 1999 to 44 percent in 2002 and there are indications that income inequality has declined. Per capita GDP measured in dollars is rising but remains somewhat below its level before the Russian crisis. There are also indications that the size of the shadow economy is on the decline.

Kyrgyz Republic: Poverty Indicators, 1998–2002

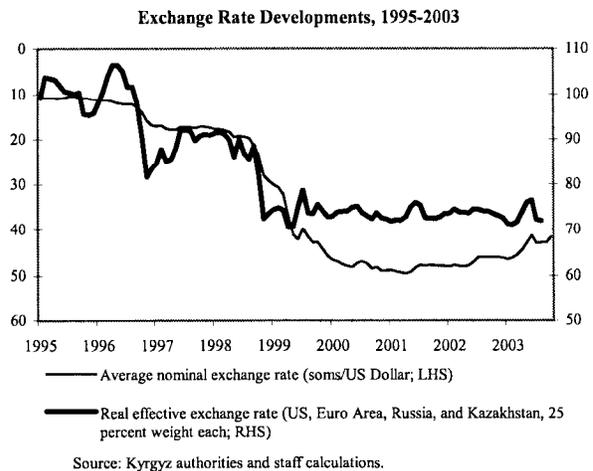
	1998	1999	2000	2001	2002
Poverty rate (in percent) 1/	54.9	55.3	52.0	47.6	44.4
GINI coefficient 2/	0.447	0.443	0.449	0.441	0.419
Real GDP growth (in percent)	2.1	3.6	5.4	5.4	0.0
Per capita GDP (U.S. dollars)	341	257	278	308	321
Shadow economy as share of GDP (in percent)	25.3	24.6	22.9	19.5	...

Sources: Kyrgyz authorities; World Bank; and Fund staff estimates.

1/ National definition; based on per capita expenditure adjusted for household size.

2/ Based on personal income.

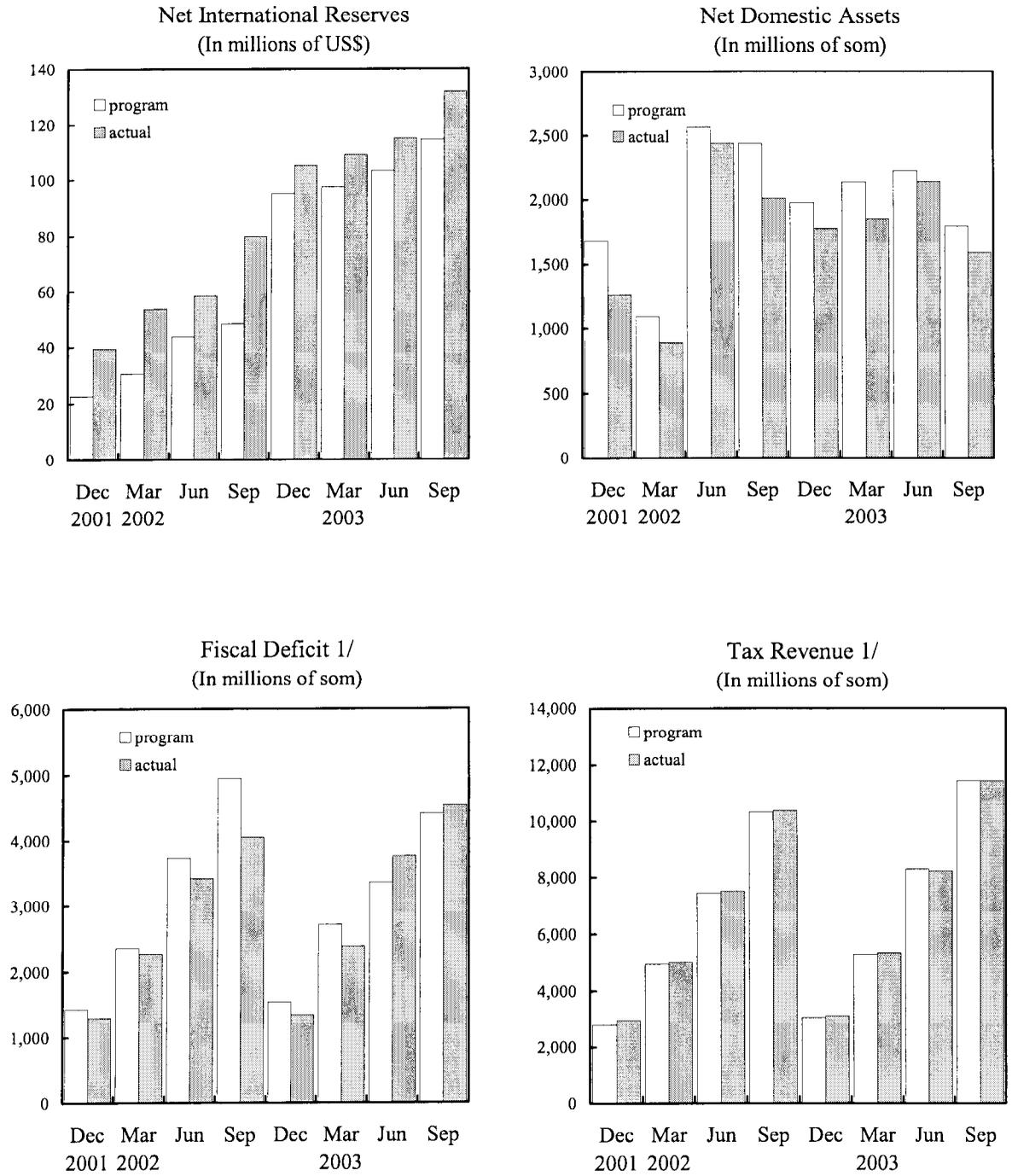
3. **In line with earlier projections, the current account deficit is expected to decline from 4 percent of GDP in 2002 to 3½ percent in 2003.** Increased gold prices and export volumes and strong export performance of tourism and transport would more than offset the impact of rising import demand for consumer and investment goods owing to the economic recovery. The real effective exchange rate has remained stable in recent years, suggesting that the gains in competitiveness of Kyrgyz producers since the 1998 Russian crisis have been maintained. A surplus on the capital account (mainly reflecting project financing and capital inflows through the shadow economy) and Paris Club flow reschedulings of over 2 percent of GDP underlie a projected modest increase in official reserves to the equivalent of 4.7 months of imports at end-2003.



4. **Program performance remains strong despite the small breach of the fiscal deficit target at end-September (Figure 1).** The deviation from the target by 0.2 percent of GDP was mainly because the programmed € 4 million grant under the European Union food security program was postponed to the fourth quarter. All other performance criteria were observed (Table 1). Central bank net international reserves (NIR) exceeded the program floor by the equivalent of 9 percent of reserve money, with the NBKR purchasing \$19 million (equivalent to 0.3 months of imports) from the foreign exchange market during April–September. The accumulation of additional government deposits in the central bank helped to sterilize the monetary impact of foreign exchange inflows and to keep NBKR net domestic assets (NDA) below the program ceiling by the equivalent of 2 percent of reserve money. Broad money grew by 32 percent through September, slower than during 2002 but faster than projected because of stronger-than-expected remonetization of the economy.

5. **The authorities have completed their negotiations on bilateral debt reschedulings.** Agreements comparable to the terms being provided by the Paris Club have been signed with all bilateral official creditors, except that no agreement has been reached with the Kuwait Fund. At end-2003, the external public debt is projected at 101 percent of GDP, down from 130 percent at end-2000.

Figure 1. Kyrgyz Republic: Performance Under the Program
(December 2001– September 2003)



Sources: Kyrgyz authorities; and Fund staff estimates.
1/ Cumulative during program period (October-September).

6. **Macroeconomic stabilization has reduced banking risks and helped to strengthen the financial sector.** Banks became profitable in 2002, when deposit and lending growth began to accelerate, and their asset quality is slowly improving. However, despite remonetization, the sector remains small—broad money was only 17 percent of annual GDP at end-October 2003, and deposits just 6 percent.¹ The banking system’s capacity to intermediate savings and provide investment financing to small- and medium-sized enterprises remains weak. Implementation of the reform program, which aims at strengthening banking capacity and public trust in banks, has resulted in a stronger legal basis for bank auditing, higher minimum capital requirements, and better administration of bank liquidations and debt recovery. Amendments to the Law on Audits were submitted to Parliament in September and, once passed, would give the NBKR a stronger hand in supervising bank audits. The new AML/CFT law, which aims to reflect recent FATF recommendations, is under discussion in parliament. Other amendments before Parliament would ensure the independence of the internal audit function and better define the qualification requirements for external bank auditors. Amendments to eliminate the 15 percent maximum ownership threshold applied to legal entities’ ownership of commercial banks were postponed to December. The authorities wanted to take this step in parallel with the introduction of consolidated supervision of banks and bank holdings.

Kyrgyz Republic: Selected Financial Indicators, 2000–03
(In percent, unless otherwise indicated; eop)

	2000	2002	2003 Sept.
Capital adequacy			
Regulatory capital to risk-weighted assets 1/	30.5	36.4	32.4
Non-performing loans/total loans 2/	13.4	13.3	12.8
Return on equity 3/	-5.5	4.5	5.8
Memorandum items:			
Broad money/GDP	11.3	14.7	14.7
Deposits/GDP	5.0	5.5	5.6
Credit to the private sector/GDP	4.1	4.2	4.1

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

1/ Regulatory capital includes tier 1 and tier 2 capital. Assets are risk-weighted according to Basle principles.

2/ Non-performing loans include sub-standard, doubtful, and non-serviced loans.

3/ Net income/equity capital.

7. **Progress in restructuring and divesting the state-owned financial institutions has been mixed.** Two large deposit holders—Kairat Bank and the Savings and Settlement Corporation (SSC)—remain state-owned and operate under narrow banking licenses. The privatization tender for Kairat bank was issued in late November, following delays associated

¹ The average deposits-to-GDP ratio in the CIS was 12 percent at end-2002.

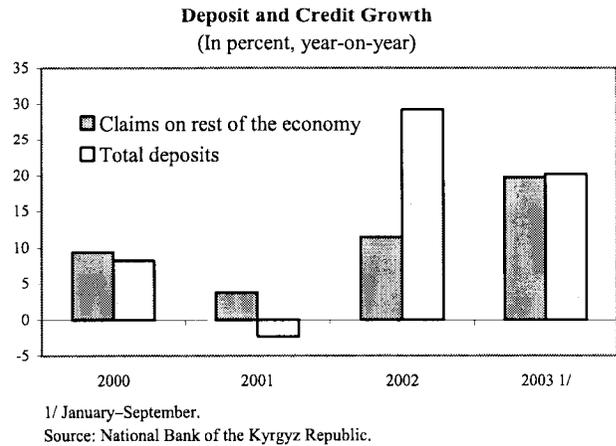
with the hiring of foreign privatization advisors. The largest micro finance lender—the state-owned Kyrgyz Agriculture Finance Corporation (KAFC)—has not been given a banking license as it has not yet presented a viable business plan.²

8. **In governance reform, the focus has been on fiscal transparency and accountability.** During the second-year program, functional reviews of several ministries were completed, quarterly fiscal

bulletins were published, and VAT refund regulations were streamlined. The National Integrity Council (NIC) has begun operations with the aim of addressing governance problems more generally. The authorities have created a steering committee with a professional secretariat to design and drive the Council's work. One fourth of the membership of the Council is drawn from civil society.

9. **On other key structural measures, trade restrictions were reduced by modifying the cigarette excise tax so as to remove the discrimination against foreign producers.** To simplify its administration, the authorities chose a graduated scale of specific rates (reflecting quality and price) designed to broadly mimic an *ad valorem* regime. As for the energy sector, the authorities developed a semi-annual reporting framework for the electricity sector quasi-fiscal deficit (QFD). They have presented a report based on end-June 2003 data showing a 6.3 percent of GDP quasi-fiscal deficit—roughly half the program's indicative target for the year. In October, the President announced urgent measures to improve cash collections in the sector, and key government officials now appear more determined to avoid interference in commercial decisions of the distribution companies, including by allowing them to halt service for chronic nonpayment.

10. **The tender for a majority stake in *Kyrgyz Telecom* in June drew bids from six investors and the authorities continue to work out details with the winning Swedish bidder.** Progress had slowed due to concerns raised in some parts of the government, reportedly with regard to future tariff and investment policies.



² Its lending to agriculture has been financed by IFIs. However, it appears these sources would dry up in the medium term, and KAFC is seeking a bank license to attract deposits as an alternative source of financing. A prerequisite for granting a bank license to KAFC, however, is a credible business plan to ensure viability.

II. POLICY DISCUSSIONS

11. **The authorities agreed that the policy strategy for the third-year program should continue to focus on external debt sustainability and strengthening the sources of growth.** The unsustainable external debt calls for continued gradual fiscal consolidation through expanding the tax base, more efficient revenue mobilization, and some containment in the ratio of expenditures to GDP in the medium term. Supporting growth requires export diversification to offset the declining trend in gold production, containing wage inflation to maintain cost competitiveness, and structural reforms to sustain productivity growth. In addition, international cooperation is needed to help remove obstacles to regional trade in central Asia. For a better investment climate, structural reform should continue to focus on governance, the banking sector, and reducing the quasi-fiscal deficits of the electricity sector.

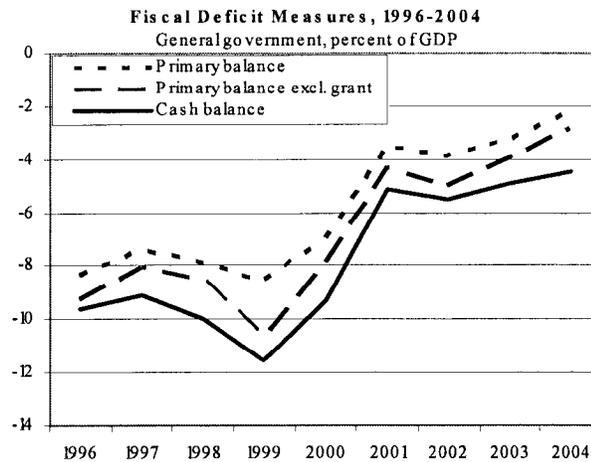
Box 1. The Case for Fiscal Adjustment in the Kyrgyz Republic

Fiscal adjustments are sometimes claimed to prioritize macroeconomic stability over growth or critical social spending. However, the recent Kyrgyz experience shows that the underlying real GDP growth has remained at around 5 percent a year while the fiscal deficit has been reduced from 12 percent of GDP in 1999 to 5½ percent in 2002. Moreover, social spending, which has a more direct impact on the welfare of the poor, has been protected and even increased: spending on education, health, and social benefits rose from 12.2 percent of GDP in 2000 to 14.1 percent in 2002.

Fiscal consolidation is a key component of the Kyrgyz debt reduction strategy. Failure to reduce the debt burden to a sustainable level would impede the country's economic development. Because the NPV of public debt-to-exports ratio is projected at 216 percent in 2003 (down from 222 percent in 2002), eliminating the primary fiscal deficit in the medium term is critical to the Kyrgyz growth strategy. In this case, containing capital spending is appropriate as the country's absorption capacity is limited and its external debt is so high that a slowdown in concessional borrowing to finance public investment is warranted. Fiscal consolidation is also an important factor in maintaining low inflation expectations.

In addition, external financial support depends on successful fiscal adjustment, signaling a strong reform commitment. Further fiscal adjustment is particularly important to securing concessional Paris Club debt relief and achieving debt sustainability over the medium term.

Policy credibility underpinned by strong fiscal adjustment would, over time, help to establish access to international capital markets, reducing dependency on aid. In the domestic financial market, fiscal adjustment contributes to market confidence and lower real interest rates, ensuring better-functioning markets and more effective resource allocation.



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

12. **The 2000–02 saving-investment balance suggests that the targeted economic adjustment is broadly on track.** Private investment has increased, although not enough to offset the streamlining of the externally financed Public Investment Program (PIP). Domestic savings have risen, reflecting strong fiscal adjustment, although the private savings ratio slipped despite higher real incomes. These developments contributed to a reduced use of foreign savings to finance investment, consistent with the authorities' external debt strategy. Continuing tight fiscal policy in the coming years should increase domestic savings further. This, and somewhat more foreign financing, would support a higher private investment ratio, more than half of which is expected to materialize through foreign direct investment (FDI). More specifically, FDI is expected to accelerate with investment in the Jeeroy gold project (which would begin operating in 2005) and with the Kyrgyz Telecom privatization.

Saving-Investment Balance Summary, 2000-06

	2000	2002	2003	2006
	Est.	Est.	Proj.	Proj.
	Per cent of GDP			
Total Investment	20.0	17.6	17.2	19.4
Government	8.1	5.9	4.6	4.3
Non-government	11.9	11.7	12.7	15.1
Total domestic savings	13.4	13.7	13.7	14.6
Government	-2.1	0.2	-0.9	0.8
Non-government	15.5	13.6	14.6	13.8
Foreign savings	6.6	3.9	3.5	4.9

Source: Staff estimates and projections.

13. **The macroeconomic framework is based on growth slowing from 5 percent in 2003 to 4 percent in 2004, as gold production declines.** Planned administrative price increases and the implementation of the agricultural VAT would lead to a slight increase in inflation, which would nevertheless remain under 4 percent. The current account deficit is expected to increase to over 4 percent of GDP. Export growth would slow, with the fall in gold exports compensated by rising energy exports, assuming normal weather conditions in Kazakhstan and

Key Macroeconomic Indicators, 2002–04

	2002	2003	2004
	(est.)	(proj.)	(proj.)
Real GDP growth (percent)	0.0	5.2	4.1
CPI inflation (p.a., percent)	2.1	2.7	3.7
Current account (percent GDP)	-3.9	-3.5	-4.2
Official reserves (months of imports)	4.4	4.7	5.0

Source: Staff estimates and projections.

Uzbekistan.³ Imports would continue to grow in line with rising domestic demand. Helped by the assumed new balance-of-payments support from donors, gross official reserves would rise to 5 months of imports at end-2004.

A. Fiscal Policy

14. **Although the overall fiscal position was broadly on track through September 2003, earlier spending decrees and the slow implementation of key revenue measures threatened the 2003 deficit target.** Wage increases granted during 2003 in the social sector and for military and security personnel were to raise the state government wage bill by 0.8 percentage point of GDP relative to that foreseen in EBS/03/95.⁴ Tax revenue was estimated at 0.5 percent of GDP below the third review projection, as strong political resistance led to further delays in implementing the agriculture VAT and the real property tax. With revised projections on other expenditures (in particular on the Public Investment Program), a fiscal gap of 0.7 percent of GDP remained. The discussions with the authorities concentrated on strengthening fiscal discipline. The authorities identified expenditure cuts for October–December equivalent to 0.6 percent of annual GDP so that the annual fiscal deficit target would require only a slight revision (0.1 percent of GDP) and would be reduced by ½ percentage point of GDP from the 2002 outcome, to 4.9 percent of GDP. The expenditure measures involved postponing additional wage increases for the military and security services; reducing budget transfers to various agencies; postponing capital repairs and domestically-financed capital expenditures; reducing planned travel expenditures; cutting planned equipment purchases; reducing spending on public utilities and transportation; and cutting spending on other goods and services.

15. **For 2004, the key fiscal objective is to continue to reduce the deficit (Box 2).** The programmed deficit of 4.4 percent of GDP would be fully financed externally by donors. The authorities' commitment to the full implementation of the agricultural VAT and real property tax—following delays in 2003—should lead to an increase in the ratio of tax revenues to GDP by 0.4 percentage point. The 2004 expenditure program allows for higher social spending through targeted social sector wage increases, a package of targeted social compensation for anticipated higher electricity user costs (should they materialize), and protecting spending on other social priorities. Priority current spending and capital expenditures could be increased if external grants or debt relief can be mobilized on a sustained basis.

³ Electricity generated in the summer from Kyrgyz reservoirs and used for irrigation purposes in neighboring countries is traded for fuel and gas deliveries in the winter.

⁴ As of 2002 wages in budgetary agencies averaged 53 percent of the private sector level, while public sector health and education wages were, respectively, just 33 and 41 percent of the average private sector wage.

Box 2. The 2004 Budget and Fiscal Program

Revenue policy:

Total state budget revenue is projected at 18.8 percent of GDP, with tax revenue accounting for 14.8 percentage points, a ½ percentage point increase from 2003. Revenue growth hinges on the adequate implementation of the extension of the VAT to large agricultural producers and of the real property tax. These two new measures are expected to increase annual tax revenues by 0.4 percent of GDP in 2004 and by an additional 1 percent of GDP in the medium term, once their implementation is fully effective. The newly restructured Large Taxpayer Unit (LTU), which became operational in August 2003, will be strengthened by the creation of a new enforcement unit and the establishment of self-assessment taxation. However, small dividend payments, reflecting the poor financial performance of (state-owned) electricity distribution companies, and a prospective refund payment to the Kumtor gold mine will hold down non-tax revenues.

Expenditure policy:

Total expenditure (excluding net lending) would be held at 23.8 percent of GDP, in line with the projected 2003 outcome and one percentage point below the 2002 level. Social sector spending (including the Social Fund) would increase to 13.9 percent of GDP, from 13.8 percent in 2003 (Table 9). Non-priority spending would be rationalized in order to accommodate these priorities within the overall expenditure envelope. Capital outlays as a percent of GDP would decline, consistent with the medium-term strategy of containing borrowing under the Public Investment Program (PIP). Key aspects of expenditure policy include:

- Limiting wage increases to those for doctors, nurses and teachers, with a 15 percent increase in April and, conditional on resource availability, another pay rise in October to bring the cumulative total pay increase to 30 percent;
- No other public sector wage increases would be granted unless resources were made available by rationalizing employment. The ratio of the wage bill to GDP would rise by 0.2 percentage points, in part because of the full-year impact of wage increases granted in 2003;
- Raising average monthly pension benefits by 9 percent on April 1;
- Reducing the foreign-financed PIP by 0.1 percentage point to 3.6 percent of GDP; and
- Refraining from issuing any new expenditure decrees or spending bills unless offsetting cuts are identified in the same decree or legislation.

The expenditure program also includes the equivalent of 0.2 percent of GDP in social compensation for vulnerable groups, to be implemented in the event of increased user costs for electricity.

16. **Discussions on tax policy focused on a package of reforms aimed at improving the efficiency of the tax system.** The authorities recognized that delays in implementing the agricultural VAT and the real property tax ruled out the reduction of production and payroll taxes in 2004. However, they saw scope to improve the corporate income tax, the VAT, small business taxes, and small business accounting and reporting. The program's additional tax policy package should take effect April 1, 2004 (structural benchmark), and is expected to be revenue neutral in 2004 (Box 3).

Box 3. Additional Tax Policy Measures in 2004

Key provisions of the tax policy package that the authorities intend to implement in 2004 are:

- Increasing the general VAT threshold from som 300,000 to som 500,000, aligning it with the level now applied in the agriculture sector. The new threshold, which is more in line with international practice, will allow tax administration officials to focus their resources more effectively and will reduce administrative requirements for small business.
- Introducing a new unified tax for all businesses below the new VAT threshold and eliminating, for these taxpayers, the profit tax, VAT, road tax, and emergency tax.
- Reducing the scope of fixed amount patent taxes in order to improve transparency and accountability, and raising patent tax rates in order to encourage a shift toward the new unified tax.
- Repealing nuisance taxes and reviewing the current VAT exemptions to ensure that goods sold for final consumption are not inappropriately VAT-exempt.
- Clarifying the zero-rating of service exports and defining the place-of-supply rule consistent with international best practice.

B. Monetary and Exchange Rate Policies

17. **Monetary policy will aim to achieve the program's inflation target while allowing for the further accumulation of net international reserves.** The income velocity of money is expected to decline by 7 percent in 2004, from 8.1 to 7.5. Following the projected 23 percent growth of broad money during 2003, and assuming some increase in the money multiplier, this would allow money supply to expand by 16 percent, leaving room for a 28 percent increase in private sector credit. The tight fiscal policy and higher balance of payments support would support the \$40 million programmed increase in gross reserves, to the equivalent of 154 percent of reserve money and 101 percent of broad money. The accumulation of government deposits in the central bank and NBKR open market operations would help sterilize the monetary impact of the anticipated foreign exchange inflows and limit reserve money growth to 9 percent.

18. **Staff and authorities concurred that the NBKR should continue its policy of a managed float.** The NBKR intends to intervene in the foreign exchange market only to smooth temporary variations in the nominal exchange rate and to strengthen its official reserve position. It will also manage its official reserves portfolio so as to improve the currency match between assets and liabilities; the portfolio deteriorated with the recent decline of the U.S. dollar vis-à-vis the SDR.⁵

⁵ About 80 percent of the NBKR's foreign reserves are held in U.S. dollars, while some 76 percent of liabilities are in SDRs.

C. External Policies

19. **The authorities will continue to implement their debt strategy through gradual fiscal adjustment and cautious foreign borrowing on highly concessional terms.** The updated debt sustainability analysis (DSA) suggests that a concessional Paris Club debt stock operation is required if the Kyrgyz Republic's net present value of external debt is to approach the 150 percent-of-exports HIPC threshold during this decade. This outcome is less promising than in previous simulations (see EBS/03/95), reflecting the more depreciated U.S. dollar exchange rate and lower discount rate used in the current simulation (Box 4).

20. **The staff stressed that continued program compliance was essential to maintaining external competitiveness and supporting export diversification, higher investment and growth.** In addition, the authorities concurred with staff that a liberal trade regime and good governance were also crucial to achieving these objectives. However, despite a more liberal trade regime, the ratio of trade to GDP of the Kyrgyz Republic is lower than the CIS average. This may suggest that the country suffers more than others from the lack of regional economic cooperation in central Asia. The authorities agreed that while the efforts of the international community to help reduce trade restrictions in the region are underway,⁶ they could strengthen their own efforts to alleviate trade obstacles. Accordingly, they intend to negotiate with neighboring countries to improve regional trade arrangements, including by removing impediments to mutual investment flows and transit trade with Kazakhstan. The WTO accession process underway for Kazakhstan and Russia should provide a framework for such discussions with these key partners. For their part, the Kyrgyz authorities committed to simplify transit transport and customs procedures and not to re-introduce any seasonal tariffs this winter.

21. **Debt reschedulings and disbursements from the international financial institutions would fully finance the third-year program.** Staff projections assume \$25 million in balance of payments support from the AsDB and net disbursements of SDR 7 million from the IMF. In the following years (2005–06), the staff's BOP projections indicate an annual financing gap of about \$100 million if adequate foreign reserves are to be maintained. This gap is expected to be covered by additional Paris Club debt relief and BOP support from the IFIs.

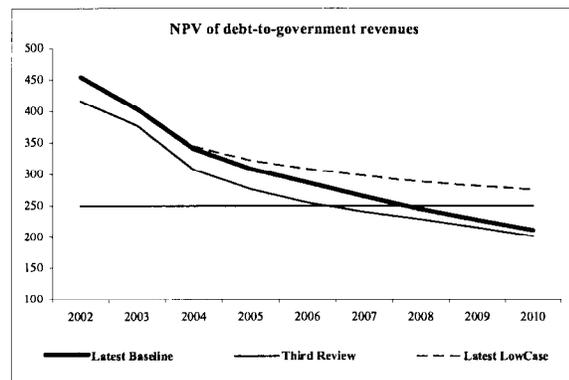
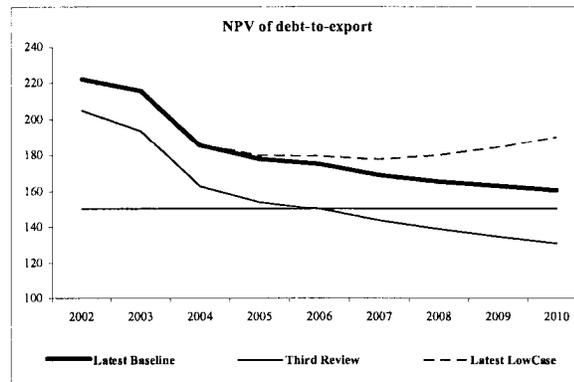
⁶ To this effect, a Ministerial Conference on Regional Economic Cooperation was held in Tashkent on November 12. The conference was sponsored by the AsDB in cooperation with the IMF, the World Bank, and the EBRD.

Box 4. Debt Sustainability

The DSA has been updated to reflect actual end-2002 loan-by-loan data, the revised balance of payments projections, the new macroeconomic framework (with 4.5 percent annual real GDP growth and 3.5 percent export volume growth), and recent interest and exchange rate movements. (The composition of the Kyrgyz Republic's external debt is described in SM/03/47, Table 23.) Under this scenario, assuming a Paris Club concessional debt stock operation in early-2005, the NPV of debt is on average \$183 million higher than in previous simulations during the remainder of the decade. Accordingly, the NPV of debt-to-exports ratio would fall close to the 150-percent HIPC threshold only at the end of the decade—four years later than projected earlier. This outcome mainly reflects a lower discount rate (by 0.6 percentage points), which raises the NPV of debt by about \$100 million. The past depreciation of the U.S. dollar against other major currencies accounts for another \$75 million. In addition, projected export levels are lower. The NPV of debt-to-fiscal revenue ratio would fall below the 250-percent HIPC threshold by 2008, one year later than projected earlier. These results underscore the sensitivity of the debt simulations to discount rate assumptions and exchange rate developments.

The staff used a low-case scenario (2.5 percent real GDP growth and 2 percent export volume growth) to further assess the sensitivity of the projections. Under this scenario, with higher inflation and lower real output and export volume growth, the NPV of debt-to-exports ratio would begin rising again in 2008, even with Paris Club debt stock relief.

Without a Paris Club concessional debt stock operation in early-2005, the NPV of debt-to-exports ratio would remain 23 percentage points higher at the beginning of the consolidation period and 11 percentage points higher at the end of the decade. The ratio of debt service to fiscal revenues would not fall below 20 percent until 2010, 5 years later than with a concessional debt stock operation. Further debt analysis is ongoing in the context of the CIS-7 Initiative and is expected to be presented to the IMF Executive Board in early 2004.

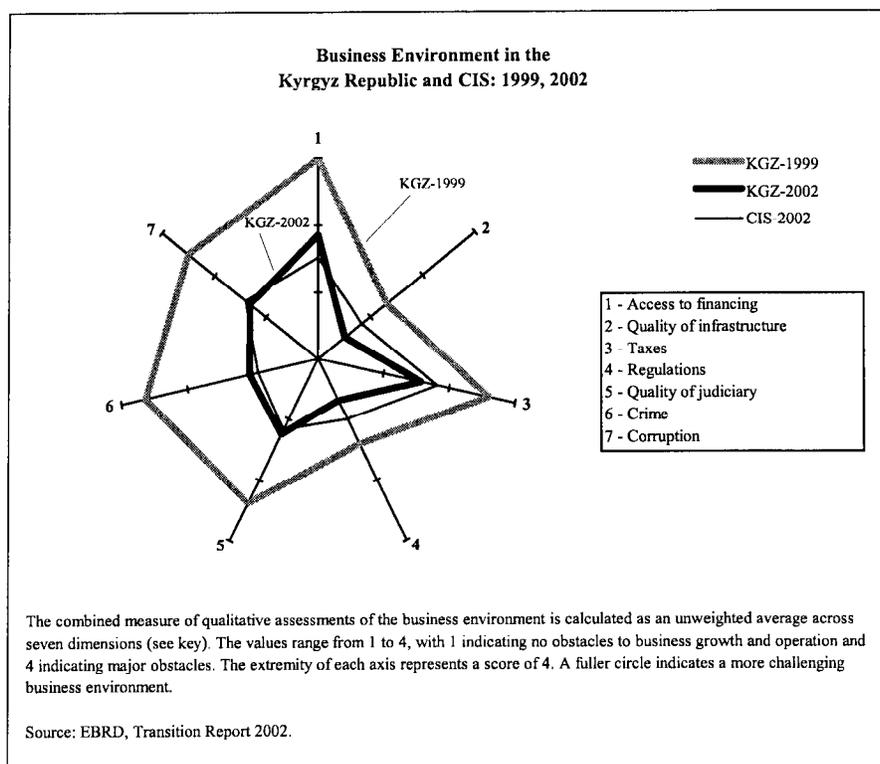


III. STRUCTURAL REFORM

22. **Discussions on structural reform continued to focus on improving governance, strengthening the banking sector, and reducing the electricity sector quasi-fiscal deficit.** The authorities were receptive to the staff's view that ambitious structural reform in these areas would help to achieve multiple goals: higher productivity, stronger economic growth,

debt sustainability, and poverty reduction. They pointed out that much had been accomplished in these areas over the past year, but staff noted that these accomplishments had only laid the groundwork for change. For example, the establishment of the NIC and the design of an electricity sector monitoring framework were necessary steps, but by themselves would not reduce corruption nor the quasi-fiscal deficit (QFD).

23. **The staff called on the authorities to accelerate and deepen the reform momentum and urged the authorities to make good governance a competitive edge over the countries in the region to offset their country's poorer resource endowments.** Although the Kyrgyz Republic's business environment has improved in recent years, it lagged behind not only the most-advanced transition economies (such as the Baltics), but also key trade partners, such as Russia. Reduced corruption and keeping the government at arm's length from private businesses, in particular, were central to improving the investment climate and the efficiency of the economy. Following the establishment of the National Integrity Council (NIC), it is critical for the NIC and the Government to design and begin implementing an ambitious anti-corruption and governance agenda. Such a concept paper is now expected in early 2004. The agreed governance program aims to press ahead on a broad front, including through key measures in areas such as fiscal transparency, public administration, and corporate governance. In addition, the staff stressed governance aspects of policies in areas such as the LTU reform and the small enterprise tax reform, which both have as an underlying objective reducing direct contact between tax inspectors and enterprises.



24. **The staff and the authorities took the view that focusing banking reforms on the state-owned financial institutions and on strengthening bank supervision was crucial for better financial intermediation (Box 5).** In this regard, the privatization of Kairat Bank is an important step and is expected to be completed in mid-2004. Outside reviews of the SSC and KAFC, by end-June 2004, should serve as a basis for determining whether these institutions' banking operations continue to be restricted in the future. Bank supervision has been complicated by the uncertainty over the relationship between various laws. This is to be addressed by amendments to existing legislation to ensure that banking supervision is not undermined by legal inconsistencies.

Box 5. Banking Sector Reform

The agenda for banking reform focuses on: (1) developing the future institutional form of the state-owned financial institutions SSC and KAFC, and (2) strengthening banks and bank supervision. As part of the third year economic program, the authorities will

- subject SSC to an international audit with a view to developing in the second half of the year a plan for the future institutional form of the SSC. The SSC is currently a large deposit taker, but has a narrow bank license. As a result, the bank holds mainly government securities. The SSC also fulfills important social functions, providing costly payments system services through its branch network in the remote areas of the country. In doing so, the SSC is currently profitable. However, as spreads between deposit rates and treasury bill rates narrow, the financial viability of the SSC needs to be assessed;
- assess the loan portfolio of KAFC and subject it to an international audit with a view to developing in the second half of the year a proposal for its future institutional form. KAFC has been growing very fast and is among the largest lenders in the country, but has no bank license;
- clarify relationships among various laws affecting banking activity. Given the serious weaknesses in the judicial system, legal inconsistencies have provided courts with the opportunity to rule in different directions. This has made court rulings even less predictable, which has been an important barrier to financial sector development;
- eliminate the 15 percent ownership threshold for financial institutions on bank capital together with introducing consolidated supervision of banks and bank holdings. This will enable the NBKR to continue supervising banks that are owned by non-bank financial institutions; and
- make IAS-based financial statements compulsory for banks, beginning with the 2003 statement.

25. **The authorities remain keen to establish a deposit insurance scheme and are preparing an action plan for its introduction.** Building on the work of a visiting MFD expert, the staff emphasized that meeting the pre-conditions for introducing such a scheme would require considerable time. Apart from strong bank supervision, such conditions include improved health of the banking system, improved data reporting, and sound and adequate funding of the scheme.

26. With regard to the **electricity sector quasi-fiscal deficit (QFD)**, although cash collections and losses failed to improve in the first half of 2003, the appreciation of the som against the U.S. dollar (in which the cost recovery tariff is specified) helped measured performance. In view of the renewed efforts to improve cash collections and reduce losses, the targeted end-year deficit ceiling of 11.7 percent of GDP remains feasible. The authorities thought that the program's indicative target of reducing the QFD by 2 percentage points of GDP in 2004 was realistic. To cut the QFD to 9.7 percent of GDP, they would use tariff policy and measures to increase cash collections and reduce losses. The World Bank is working with the authorities on a detailed set of measures in these areas.

IV. PROGRAM MONITORING

27. **No significant changes are proposed to program monitoring.** The attached Memorandum of Economic Policies (MEP) specifies quantitative performance criteria (PCs) for end-March 2004 and end-September 2004, and structural measures through September 2004. Adoption by parliament of the 2004 State Budget Law and the Social Fund Budget Law consistent with the MEP constitute a prior action for completing the present review. The fifth program review would be conducted based on the end-March PCs, other aspects of program performance, and the authorities' policy intentions for the period through September 2004. Timely completion of the fifth review would provide an opportunity to revisit the end-September 2004 performance criteria in light of possible changes in the economic environment.

V. STAFF APPRAISAL

28. **The staff congratulates the Kyrgyz authorities for their economic policy management over the first two years of the PRGF-supported program.** Sound policies have contributed to continued low inflation, a return to satisfactory growth, and declining poverty rates. Although fiscal policy faltered at times during 2003, owing mostly to wage-related expenditure decrees, the authorities have shown a determination to adhere to key program targets by undertaking difficult expenditure cuts. Firm monetary policy has helped to maintain price stability and underpins the improved confidence in the banking system.

29. **Looking forward, the staff believes that the proposed third-year program is both strong and credible.** The authorities recognize that further fiscal consolidation is necessary to help reduce the debt overhang that constrains growth and poverty reduction. Their 2004 budget reflects this need, but also addresses social priorities spelled out in the National Poverty Reduction Strategy. The authorities deserve credit for formulating and adopting an appropriate budget for the period leading up to the 2005 parliamentary and presidential elections.

30. **The main risks for the third-year program lie with the difficult challenge of maintaining fiscal discipline.** Wage increases during 2003 largely targeted underpaid social sector workers but nevertheless resulted in a sharp increase in the ratio of the wage bill to GDP. The rapid increase forced adjustment on other spending areas, and the staff encourages the authorities to adhere closely to their 2004 expenditure limits expressed in the MEP. The authorities' commitment to avoid issuing spending decrees is most welcome in this respect.

31. **The main challenges on the revenue side are the implementation of the agricultural VAT and the real property tax.** Although revenue projections for these taxes are cautious, the many sources of uncertainty—mainly political—call for stronger ownership of these two reforms. The staff welcomes the authorities' plans to reform small enterprise taxation. The reform package builds on Fund technical assistance and advice from other international experts and should enhance revenue efficiency. Over time, the reforms in value added, property, and small enterprise taxation are expected to strengthen the revenue base and facilitate reductions in production and payroll taxes.

32. **The staff continues to support the authorities' exchange rate policy of a managed float.** The recent appreciation of the nominal exchange rate is not a concern, as broad indicators suggest that the level of the real exchange rate remains appropriate. The variability of the U.S. dollar versus other major currencies has complicated foreign reserve management and the NBKR should make a serious effort to improve over time the currency match of its foreign assets and liabilities.

33. **The authorities are on track with their external debt strategy.** In particular, they recognize the important contribution of fiscal consolidation and program adherence to this strategy. The staff's updated projections suggest that achieving debt sustainability requires several years of cautious foreign borrowing, even with a potential Paris Club debt stock relief operation.

34. **Success of the debt reduction strategy will depend partly on maintaining strong growth and on diversifying and strengthening exports, which in turn will require deepening structural reforms.** The focus of structural reform is appropriate—governance, banking reforms, and better financial balance of the energy sector are keys for improving productivity, the business climate and investment. With the commencement of operations of the National Integrity Council and its Secretariat the authorities are poised to advance on a broad agenda of anti-corruption and governance reform. Translating planning and good intentions into a substantial and durable reduction in corruption is among the greatest challenges facing the government and the country. Banking sector reform is central to mobilizing the savings needed to finance the expansion of small and medium sized enterprises that are critical to sustained medium-term growth.

35. **Reform of the electricity sector is moving from planning to implementation.** The development of a framework for monitoring the quasi-fiscal deficit is already helping to enhance public awareness, but the concrete measures needed may prove unpopular and implementing them requires strong leadership. On privatization, the staff encourages the rapid resolution of the remaining issues in the sale of Kyrgyz Telecom and Kairat Bank.

36. **The authorities have successfully implemented the second year program under the PRGF and have formulated realistic targets and credible policies for the third year program.** The deviation from the end-September fiscal deficit performance criterion was minor and the authorities are implementing corrective steps to hold the fiscal deficit on track. The staff therefore supports the authorities' request for a waiver of nonobservance of the fiscal deficit performance criterion and recommends the completion of the fourth review.

VI. PROPOSED DECISION

The following decision, which may be made by a majority of votes cast, is proposed for adoption by the Executive Board:

1. The Kyrgyz Republic has consulted with the Fund, as trustee for the Poverty Reduction and Growth Facility (PRGF) Trust, in accordance with paragraph 2(e) of the three-year arrangement for the Kyrgyz Republic under the PRGF Trust (EBS/01/187, Supplement 2, 12/6/01, as amended) in order to review program implementation, obtain a waiver for the non-observance of one quantitative performance criterion and reach understandings regarding the conditions for the disbursement of the sixth and seventh loans under the arrangement.

2. The letter dated December 15, 2003 from the Prime Minister and the Chairman of the National Bank of the Kyrgyz Republic, along with the Third-year Memorandum of Economic Policies (the "MEP") and Technical Memorandum of Understanding (the "TMU") attached to it, shall be attached to the three-year PRGF arrangement for the Kyrgyz Republic, and the letters dated November 16, 2000, June 13, 2002, January 31, 2003 and June 30, 2003 together with their respective attachments, shall be read as supplemented and modified by the letter dated December 15, 2003 and its attachments.

3. Accordingly, the following amendments shall be made to the three-year PRGF arrangement for the Kyrgyz Republic:

a. New subparagraphs (vi) and (vii) shall be added to paragraph 1(c) of the arrangement, as follows:

“(vi) The sixth loan, in an amount equivalent to SDR 9.56 million, will be available on or after May 15, 2004, at the request of the Kyrgyz Republic and subject to paragraph 2 below.

(vii) The seventh loan, in an amount equivalent to SDR 9.56 million, will be available on or after November 15, 2004, at the request of the Kyrgyz Republic and subject to paragraph 2 below.”;

b. Paragraph 2(a) of the arrangement shall be amended by (i) the insertion, immediately before “indicate that” of “or the data as of March 31, 2004 for the sixth loan, or the data as of September 30, 2004 for the seventh loan”; (ii) the deletion of “and” immediately before “(iv) for the fifth loan” and (iii) the insertion, immediately before “, was not observed” of “(v) for the sixth and seventh loans, in Table 2 to the MEP attached to the letter dated December 15, 2003 and as defined in the attached TMU.”

c. Subparagraph (viii) of paragraph 2(a) of the arrangement shall be deleted from paragraph 2(a) and “, or the ceiling on contracting or guaranteeing by the state government or the NBKR of new non-concessional external debt with a maturity of less than one year” shall be inserted, immediately before “; or” in paragraph 2(c) of the arrangement.

d. Paragraph 2(e) will be amended by the addition at the end of “and, with regard to the disbursement of the sixth loan, that the fifth review of the Kyrgyz Republic’s program scheduled for completion by June 30, 2004, referred to in paragraph 34 of the MEP attached to the letter dated December 15, 2003, and, with regard to the disbursement of the seventh loan, that the sixth review of the Kyrgyz Republic’s program, the timing of which shall be determined at the time of the fifth review, has been completed.”

4. The Fund decides that:

(a) the fourth review, as contemplated in paragraph 2(e) of the three-year PRGF arrangement for the Kyrgyz Republic, is completed; and

(b) the Kyrgyz Republic may request disbursement of the fifth loan referred to in paragraph 1(c)(v) of the three-year PRGF arrangement for the Kyrgyz Republic, notwithstanding the non-observance as of September 30, 2003 of the quantitative performance criterion with regard to the ceiling on the cumulative fiscal deficit of the state government specified in paragraph 2(a)(iii) of the arrangement, on the condition that the information provided to the Fund by the Kyrgyz Republic on the performance under this criterion and on the implementation of the measure specified as a prior action in Table 3 to the MEP is accurate.

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

	2002				2003							
	December		March		June		September					
	Benchmarks		Performance Criteria		Benchmarks		Performance Criteria					
	Program	Adjusted	Actual	Program	Adjusted	Actual	Program	Adjusted				
I. Performance criteria												
1. Floor on net international reserves of the NBKR in convertible currencies (eop stock, in millions of U.S. dollars) 2/	96.1	94.9	105.2	104.2	97.2	109.0	113.4	103.2	114.8	119.8	114.4	131.7
2. Ceiling on net domestic assets of the NBKR (eop stock)	1,920	1,976	1,780	1,804	2,131	1,850	1,749	2,224	2,136	1,539	1,795	1,588
3. Ceiling on cumulative fiscal deficit of the state government 3/	1,548	n.a.	1,339	2,713	n.a.	2,390	3,351	n.a.	3,748	4,401	n.a.	4,527
4. Cumulative floor on state government tax collections in cash 3/	3,025	n.a.	3,085	5,303	n.a.	5,343	8,280	n.a.	8,216	11,437	n.a.	11,442
5. Ceiling on the stock of central government budget arrears	0	n.a.	0	0	n.a.	0	0	n.a.	0	0	n.a.	0
6. Ceiling on the stock of Social Fund pension arrears	0	n.a.	0	0	n.a.	0	0	n.a.	0	0	n.a.	0
7. Floor on payroll collections in cash of the Social Fund 3/	975	n.a.	920	1,715	n.a.	1,777	2,515	n.a.	2,628	3,389	n.a.	3,602
8. Ceiling on the stock of Social Fund arrears to the Medical Insurance Fund	50	n.a.	43	40	n.a.	38	20	n.a.	20	10	n.a.	10
9. Ceiling on contracting or guaranteeing by the state government or NBKR of new nonconcessional external debt of less than one year (in millions of U.S. dollars) 4/	0	n.a.	0	0	n.a.	0	0	n.a.	0	0	n.a.	0
10. Ceiling on contracting or guaranteeing by the state government or NBKR of new nonconcessional external debt with a maturity of one year or more (cumulative, in millions of U.S. dollars)	0	n.a.	0	0	n.a.	0	0	n.a.	0	0	n.a.	0
II. Indicative targets												
1. Ceiling on accumulation of new external payment arrears (in millions of U.S. dollars) 4/	105.0	n.a.	1.14	0	n.a.	0	0	n.a.	0	0	n.a.	0
2. Ceiling on the electricity sector quasi-fiscal deficit (in millions of som)	7,432	n.a.	7,659	7,677	n.a.	7,871	7,986	n.a.	8,429	8,057	n.a.	8,672

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

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

2/ Foreign exchange components are valued at the exchange rate: US\$1 = som 47, gold holdings valued at US\$322.4 per ounce, SDR valued at SDR 1 = US\$1.3186. Targets exclude net claims to BRO countries.

3/ Cumulative begins on October 1, 2002.

4/ On a continuous basis.

Adjustors

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

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

Table 2. Structural Performance Criteria and Benchmarks Through End-September 2003

	Structural Benchmarks (end-January 2003)	Assessment on Implementation
1.	Submit to parliament draft Anti-Money Laundering and Combating Financing Terrorism (AML/CFT) legislation.	Observed
2.	Publish the list of the 50 largest tax payers.	Observed
3.	Eliminate the specialized bank status.	Observed
	Structural Performance Criteria (end-March 2003)	
1.	Adoption by the upper house of parliament and enactment of the VAT extension on the direct sales of large agricultural producers.	Observed with delay Adopted by parliament by end-March, but signed by President on April 14.
2.	Adoption by parliament and enactment of a new tax law on real property.	Observed with delay Upper House approved with a one-week delay; signed by President on April 30.
3.	Approval by the Economic Policy Council and publishing of the 2004-2006 Medium-Term Budget Framework designed to achieve real GDP growth of 5 percent and inflation of not more than 4 percent a year.	Observed
	Structural Benchmarks (end-March 2003)	
1.	Reduce arrears on VAT refunds as specified in paragraph 16 of the SMEP.	Observed
2.	Issue implementation regulations for extra-judicial arbitration of commercial disputes.	Observed
3.	Develop a commitment control and arrears tracking system on a manual basis.	Observed
4.	Issue a privatization tender for KAIRAT bank.	Not observed
	Structural Benchmarks (end-September 2003)	
1.	Modify the cigarette excise tax to eliminate the current differential excise rates between domestically-produced and imported products by implementing a non-discriminatory ad valorem excise tax.	Observed
2.	Submit to parliament amendments to the Law on Audits, as described in paragraph 16 of the SMEP	Observed
3.	Issue a privatization tender for KAIRAT Bank, as described in paragraph 16 of the SMEP.	Observed with delay The tender was issued on November 25
4.	Develop a semi-annual reporting framework for the electricity sector quasi-fiscal deficit, as specified in Table 12 of the Supplementary TMU, and present to Fund staff the first report, based on end-June 2003 data.	Observed

Table 3. Kyrgyz Republic: Selected Economic Indicators, 2000-2006

	2000	2001	2002	2003		2004	2005	2006
	Actual	Actual	Actual	Prog. 1/ Curr. Proj.	Curr. Proj.	Curr. Proj.	Curr. Proj.	Curr. Proj.
GDP								
Nominal GDP (in billions of soms)	65.4	73.9	75.4	82.2	82.2	88.9	96.5	105.1
Nominal GDP (in millions of U.S. dollars)	1,368	1,525	1,606	1,749	1,901	2,020	2,193	2,388
Real GDP (growth in percent)	5.4	5.4	0.0	5.2	5.2	4.1	4.5	5.1
GDP per capita (in U.S. dollars)	278	308	321	346	376	400	430	464
Employment (growth in percent)	0.2	1.1	1.1	0.2	0.5	0.4	0.4	0.4
Prices and wages								
Consumer prices (percent change, cop)	9.6	3.7	2.3	4.1	3.6	3.8	3.8	3.8
Consumer prices (percent change, avg)	18.7	7.0	2.1	3.5	2.7	3.7	3.8	3.8
Nominal exchange rate (percent change, cop)	48.9	47.7	46.0	47.0	...	...	...	...
Exchange rate (soms per U.S. dollar, avg)	47.8	48.4	46.9	47.0	...	...	...	...
Average monthly wage (in U.S. dollars)	24.7	28.8	40.3	37.2	49.3	52.1	52.3	54.7
Terms of trade (percent change)	-7.0	-0.5	0.1	-0.3	1.1	-0.8	0.1	-1.5
General government finances (per cent of GDP)								
Total revenue and grants	18.5	20.4	22.8	22.7	21.9	22.2	22.4	22.8
Tax revenue	15.1	15.8	17.6	18.5	17.8	18.2	18.4	18.5
Total expenditure (including net lending)	28.5	25.9	28.0	27.4	26.7	26.6	26.1	25.8
o/w: Non-interest current expenditure	18.5	19.6	21.1	20.5	21.1	20.5	20.2	20.1
o/w: Public Investment Program (PIP)	6.8	4.4	4.7	4.7	3.7	3.6	3.3	3.0
Overall fiscal balance (cash basis)	-9.2	-5.1	-5.5	-4.9	-4.9	-4.4	-3.7	-3.0
Primary balance 2/	-6.9	-3.3	-3.9	-3.0	-3.3	-2.2	-1.6	-1.0
Money and credit 3/								
Reserve money (percent change, cop)	12.3	11.3	42.9	6.0	21.4	8.9	...	...
Broad money (percent change, cop)	12.1	12.0	35.1	14.8	22.7	15.9	...	...
Velocity of broad money 4/	10.0	9.4	7.0	6.6	6.2	5.8	...	...
Velocity of som broad money 4/	14.3	12.9	9.3	8.7	8.1	7.5	...	...
Money multiplier	1.6	1.5	1.4	1.6	1.4	1.5	...	...
External sector								
Current account balance (per cent of GDP)	-6.6	-3.3	-3.9	-3.4	-3.5	-4.2	-5.3	-4.9
Export growth (GNFS, in \$, percent change)	8.6	-2.1	13.5	12.4	9.4	2.3	6.5	4.4
Import growth (GNFS, in \$, percent change)	-6.5	-13.8	23.3	12.7	9.9	5.4	6.1	4.2
Gross reserves (months of imports, cop) 5/	4.4	3.8	4.4	4.5	4.7	5.0	4.7	4.7
External public debt outstanding (per cent of GDP) 6/	111.1	94.4	98.8	98.8	94.7	87.9	86.1	83.4
Debt service-to-export ratio (percent) 7/	21.5	24.0	14.3	12.3	9.7	11.8	24.0	20.1

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

1/ EBS/03/95

2/ Overall balance less interest payments.

3/ Projections use program exchange rate.

4/ 12 month GDP over average quarterly broad money.

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

6/ Excluding Kumtor Gold Company.

7/ The debt service-to-exports ratio falls from 2002 through 2004 because this is the consolidation period during which Paris Club flow relief applies.

Table 4. Kyrgyz Republic: Saving-Investment Balance, 2000-2006

	2000	2001	2002	2003	2004		2005		2006	
	Actual	Actual	Actual	Prog. 1/ Proj.	Prog. 1/ Proj.	Prog. 1/ Proj.	Prog. 1/ Proj.	Prog. 1/ Proj.	Prog. 1/ Proj.	Prog. 1/ Proj.
(In percent of GDP)										
Savings and investment balance										
Total Investment	20.0	18.0	17.6	18.9	17.2	20.8	18.0	21.8	18.8	19.4
Government	8.1	5.3	5.9	5.5	4.6	4.9	4.4	4.7	4.3	4.3
PIP (Public Investment Program)	6.8	4.4	4.7	4.7	3.7	4.0	3.6	3.5	3.3	3.0
Capital investment (budget)	1.4	0.9	1.2	0.8	0.9	0.9	0.7	1.2	1.0	1.3
Non-government	11.9	12.7	11.7	13.4	12.7	15.9	13.6	17.1	14.5	15.1
Total domestic savings	13.4	14.7	13.7	15.4	13.7	16.2	13.7	16.8	13.5	14.6
Government	-2.1	-0.6	0.2	0.2	-0.9	0.2	-0.6	0.5	0.1	0.8
Non-government	15.5	15.2	13.6	15.2	14.6	15.9	14.3	16.2	13.4	13.8
Foreign savings	6.6	3.3	3.9	3.4	3.5	4.8	4.2	5.0	5.3	4.9

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

1/ EBS/03/95

Table 5. Kyrgyz Republic: General Government Finances, 2001-2006

	2001		2002		2003		2004		2005		2006					
	Act.	Act.	Act.	Act.	Act.	Act.	Revised program		Act.	Act.	Annual	Annual				
							1Q	2Q					3Q	4Q		
(In millions of soms)																
Total revenue and grants	15,051	17,158	18,650	20,850	3,671	4,100	5,140	5,094	18,004	3,698	4,712	5,393	5,927	19,731	21,587	23,994
Total revenue	14,429	16,325	18,142	20,234	3,600	4,100	4,920	4,875	17,495	3,698	4,522	5,180	5,714	19,114	21,147	23,114
Of which: tax revenue 1/	11,696	13,231	15,215	16,807	2,971	3,396	3,978	4,115	14,660	3,118	3,812	4,334	4,920	16,184	17,775	19,442
Grants	622	833	508	616	71	0	219	219	509	0	190	213	213	617	440	880
Total expenditure	19,630	21,579	22,967	25,048	4,682	5,575	6,021	6,157	22,434	5,108	5,911	6,475	6,631	24,125	25,639	27,671
Current expenditure	15,715	17,107	18,439	20,661	4,074	4,546	4,713	5,354	18,686	4,494	4,960	5,326	5,472	20,252	21,490	23,153
Wage	3,550	4,121	4,537	5,008	776	1,056	1,220	1,614	5,104	1,163	1,361	1,614	1,471	5,608	5,931	6,276
Transfers and subsidies 2/	2,221	2,558	2,452	2,609	371	666	546	656	2,238	670	568	604	642	2,485	2,191	2,425
Social Fund expenditures	3,898	4,465	4,925	5,293	1,097	1,163	1,252	1,329	4,840	1,252	1,289	1,329	1,338	5,208	5,662	6,063
Interest	1,228	1,238	1,559	2,058	150	466	169	575	1,359	223	882	209	706	2,020	2,013	2,070
Purchases of other goods and services	4,818	4,726	4,966	5,693	1,681	1,196	1,527	741	5,144	1,186	861	1,570	1,315	4,932	5,693	6,320
Capital expenditure (including PIP)	3,915	4,472	4,528	4,387	608	1,029	1,308	804	3,749	614	1,149	1,149	1,159	3,873	4,148	4,518
Financial balance	-4,578	-4,421	-4,317	-4,198	-1,011	-1,475	-881	-1,064	-4,431	-1,410	-1,199	-1,082	-703	-4,394	-4,052	-3,677
Net lending	-509	-443	-444	-448	-78	-101	-72	-200	-452	-95	-94	-89	-169	-446	-482	-525
Accrual surplus (+) / deficit (-)	-4,069	-3,978	-3,873	-3,750	-933	-1,374	-809	-863	-3,979	-1,315	-1,106	-993	-535	-3,948	-3,570	-3,152
Expenditure arrears	155	-215	-62	4	-62	4	38	0	-21	0	0	0	0	0	0	0
Expenditure arrears of Social Fund	120	43	-43	-11	-28	-21	-10	-10	-68	0	0	0	0	0	0	0
Rescheduling of external interest arrears	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash surplus (+) / deficit (-)	-3,795	-4,150	-3,979	-3,761	-1,023	-1,391	-780	-873	-4,068	-1,315	-1,106	-993	-535	-3,948	-3,570	-3,152
Total financing	3,795	4,150	3,979	3,759	1,023	1,391	780	873	4,068	1,315	1,106	993	535	3,948	3,570	3,152
External financing	4,208	3,933	4,541	5,435	561	1,308	1,399	835	4,102	506	2,069	1,021	1,078	4,674	3,369	2,874
Domestic financing	-834	33	-738	-2,662	315	27	-655	-124	-437	686	-1,028	19	-579	-903	-4,578	-4,434
Change in Social Fund cash balance	121	54	0	1	-28	34	-44	39	0	98	40	-72	-66	0	0	0
Exceptional Financing 3/	299	130	176	985	176	23	80	123	402	25	25	25	102	177	197	130
Financing Gap	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	4,582
(In percent of GDP)																
Total revenue and grants	20.4	22.8	22.7	23.3	4.5	5.0	6.3	6.2	21.9	4.2	5.3	6.1	6.7	22.2	22.4	22.8
Total revenue	19.5	21.7	22.1	22.6	4.4	5.0	6.0	5.9	21.3	4.2	5.1	5.8	6.4	21.5	21.9	22.0
Of which: tax revenue 1/	15.8	17.6	18.5	18.8	3.6	4.4	4.8	5.0	17.8	3.5	4.3	4.9	5.5	18.2	18.4	18.5
Grants	0.8	1.1	0.6	0.7	0.1	0.0	0.3	0.3	0.6	0.0	0.2	0.2	0.2	0.7	0.5	0.8
Total expenditure	26.6	28.6	27.9	28.0	5.7	6.8	7.3	7.5	27.3	5.7	6.7	7.3	7.5	27.1	26.6	26.3
Current expenditure	21.3	22.7	22.4	23.1	5.0	5.5	5.7	6.5	22.7	5.1	5.6	6.0	6.2	22.8	22.3	22.0
Wage	4.8	5.5	5.5	5.6	0.9	1.3	1.5	2.5	6.2	1.3	1.5	1.8	1.7	6.3	6.1	6.0
Transfers and subsidies 2/	3.0	3.4	3.0	2.9	0.5	0.8	0.7	0.8	2.7	0.8	0.6	0.7	0.7	2.8	2.3	2.3
Social Fund expenditures	5.3	5.9	6.0	5.9	1.3	1.4	1.5	1.6	5.9	1.4	1.5	1.5	1.5	5.9	5.8	5.8
Interest	1.7	1.6	1.9	2.3	0.2	0.6	0.2	0.7	1.7	0.3	1.0	0.2	0.8	2.3	2.1	2.0
Purchases of other goods and services	6.5	6.3	6.0	6.4	2.0	1.5	1.9	0.9	6.3	1.3	1.0	1.8	1.5	5.5	5.9	6.0
Capital expenditure (including PIP)	5.3	5.9	5.5	4.9	0.7	1.3	1.6	1.0	4.6	0.7	1.1	1.3	1.3	4.4	4.3	4.3
Financial balance	-6.2	-5.9	-5.3	-4.7	-1.2	-1.8	-1.1	-1.3	-5.4	-1.6	-1.3	-1.2	-0.8	-4.9	-4.2	-3.5
Net lending	-0.7	-0.6	-0.5	-0.5	-0.1	-0.1	-0.1	-0.2	-0.5	-0.1	-0.1	-0.1	-0.2	-0.5	-0.5	-0.5
Accrual surplus (+) / deficit (-)	-5.5	-5.3	-4.7	-4.2	-1.1	-1.7	-1.0	-1.1	-4.8	-1.5	-1.2	-1.1	-0.6	-4.4	-3.7	-3.0
Cash surplus (+) / deficit (-)	-5.1	-5.5	-4.8	-4.2	-1.2	-1.7	-0.9	-1.1	-4.9	-1.5	-1.2	-1.1	-0.6	-4.4	-3.7	-3.0
Total financing	5.1	5.5	4.8	4.2	1.2	1.7	0.9	1.1	4.9	1.5	1.2	1.1	0.6	4.4	4.1	4.4
External financing	5.7	5.2	5.5	6.1	0.7	1.6	1.7	1.0	5.0	0.6	2.3	1.1	1.2	5.3	3.5	2.7
Domestic financing	-1.1	0.0	-0.9	-3.0	0.4	0.0	-0.8	-0.2	-0.5	0.8	-1.2	0.0	-0.7	-1.0	-4.7	-4.2
Change in Social Fund cash balance	0.2	0.1	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.1	0.0	-0.1	-0.1	0.0	0.0	0.0
Exceptional Financing 3/	0.4	0.2	0.2	1.1	0.2	0.0	0.1	0.1	0.5	0.0	0.0	0.0	0.1	0.2	0.2	0.1
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.4

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

1/ Includes payroll tax revenue (contribution to the Social Fund), net of the government contribution to the Social Fund.

2/ Excludes transfer to Social Fund.

3/ Mainly privatization proceeds.

Table 7. Kyrgyz Republic: State Government Finances, 2001-2006

	2001		2002		2003		2004				2005		2006				
	Act.	Act.	Act.	Act.	Third review		1Q Act.	2Q Act.	3Q Act.	Revised program			Annual				
					1Q	2Q				3Q	4Q	3Q		4Q	Annual		
	(In percent of GDP)																
Total revenue and grants	17.0	19.1	19.0	19.7	3.6	4.1	5.3	5.3	5.3	18.4	3.4	4.5	5.2	5.7	18.8	19.1	19.7
Total revenue	16.1	18.0	18.3	19.0	3.5	4.1	5.1	5.1	5.1	17.8	3.4	4.3	4.9	5.5	18.1	18.6	18.8
Current revenue	16.1	17.8	18.3	18.9	3.5	4.1	5.1	5.1	5.1	17.7	3.4	4.3	4.9	5.4	18.0	18.5	18.7
Tax revenue	12.4	13.9	14.8	15.2	2.7	3.5	3.9	4.1	4.1	14.3	2.8	3.5	4.0	4.6	14.8	15.1	15.3
Income tax	2.7	2.9	2.7	3.0	0.8	0.7	0.6	0.7	0.7	2.7	0.8	0.7	0.7	0.7	2.8	2.7	2.9
VAT	5.7	6.4	6.9	7.4	1.0	1.6	1.9	1.9	1.9	6.5	1.1	1.7	1.8	2.2	6.8	7.1	7.1
Excises	1.5	1.4	1.6	1.6	0.3	0.4	0.4	0.4	0.4	1.5	0.3	0.4	0.4	0.5	1.6	1.6	1.6
Customs	0.4	0.6	0.6	0.7	0.1	0.1	0.1	0.1	0.1	0.5	0.1	0.1	0.2	0.2	0.6	0.6	0.6
Land tax 1/	0.3	0.4	0.4	0.4	0.1	0.1	0.1	0.1	0.1	0.4	0.0	0.0	0.2	0.2	0.4	0.4	0.4
Road tax and Emergency Fund	1.3	1.4	1.5	0.9	0.3	0.4	0.4	0.4	0.4	1.5	0.3	0.4	0.4	0.4	1.5	1.5	1.5
Retail sales tax 1/	0.4	0.5	0.6	0.6	0.1	0.1	0.1	0.2	0.2	0.6	0.1	0.1	0.2	0.2	0.6	0.6	0.6
Other 1/	0.1	0.3	0.5	0.5	0.1	0.1	0.1	0.2	0.1	0.6	0.1	0.1	0.1	0.2	0.5	0.5	0.5
Nontax revenue	3.6	3.9	3.5	3.7	0.8	0.6	1.1	0.9	0.9	3.4	0.6	0.8	0.9	0.9	3.2	3.4	3.4
Capital revenue	0.1	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Grants	0.8	1.1	0.6	0.7	0.1	0.0	0.3	0.3	0.3	0.6	0.0	0.2	0.2	0.2	0.7	0.5	0.8
Total expenditure	22.8	24.8	24.3	24.4	4.9	5.9	6.5	6.6	6.6	23.8	4.9	5.8	6.5	6.6	23.8	23.3	23.2
Current expenditure	17.5	18.9	18.8	19.5	4.2	4.6	4.9	5.6	5.6	19.3	4.2	4.8	5.2	5.3	19.4	19.0	18.9
Wages and Social Fund contributions	5.8	6.5	6.5	6.6	1.1	1.5	1.8	2.9	2.9	7.3	1.6	1.8	2.2	2.0	7.5	7.3	7.1
Transfers and subsidies 2/	3.0	3.4	3.0	2.9	0.5	0.8	0.7	0.8	0.8	2.7	0.8	0.6	0.7	0.7	2.8	2.3	2.3
Transfers to Social Fund	0.5	1.1	1.3	1.3	0.3	0.3	0.4	0.3	0.3	1.4	0.3	0.3	0.3	0.3	1.3	1.4	1.5
Interest	1.7	1.6	1.9	2.3	0.2	0.6	0.2	0.7	0.7	1.7	0.3	1.0	0.2	0.8	2.3	2.1	2.0
Purchases of other goods and services	6.5	6.3	6.0	6.4	2.0	1.5	1.9	0.9	0.9	6.3	1.3	1.0	1.8	1.5	5.5	5.9	6.0
Capital expenditure (including PIP)	5.3	5.9	5.5	4.9	0.7	1.3	1.6	1.0	1.0	4.6	0.7	1.1	1.3	1.3	4.4	4.3	4.3
Domestically financed capital expenditure	0.9	1.2	0.8	0.9	0.1	0.3	0.3	0.2	0.2	0.9	0.1	0.2	0.2	0.2	0.7	1.0	1.3
Foreign financed PIP	4.4	4.7	4.7	4.0	0.6	1.0	1.3	0.8	0.8	3.7	0.5	0.9	1.1	1.1	3.6	3.3	3.0
Financial balance	-5.9	-5.7	-5.3	-4.7	-1.3	-1.8	-1.1	-1.3	-1.3	-5.5	-1.5	-1.3	-1.3	-0.9	-4.9	-4.2	-3.5
Nct lending	-0.7	-0.6	-0.5	-0.5	-0.1	-0.1	-0.1	-0.2	-0.2	-0.5	-0.1	-0.1	-0.1	-0.2	-0.5	-0.5	-0.5
Accrual surplus (+) / deficit (-)	-5.2	-5.1	-4.8	-4.2	-1.2	-1.7	-1.0	-1.0	-1.0	-4.9	-1.4	-1.2	-1.2	-0.7	-4.4	-3.7	-3.0
Cash surplus (+) / deficit (-)	-5.0	-5.4	-4.8	-4.2	-1.3	-1.7	-1.0	-1.0	-1.0	-4.9	-1.4	-1.2	-1.2	-0.7	-4.4	-3.7	-3.0
Total financing	5.0	5.4	4.8	4.2	1.3	1.7	1.0	1.0	1.0	4.9	1.4	1.2	1.2	0.7	4.4	-1.0	-1.4
External financing	5.7	5.2	5.5	6.1	0.7	1.6	1.7	1.0	1.0	5.0	0.6	2.3	1.1	1.2	5.3	3.5	2.7
Public investment program (PIP)	4.4	4.8	4.7	4.0	0.7	1.0	1.3	0.8	0.8	3.8	0.5	0.9	1.1	1.1	3.6	3.3	3.0
Disbursements (BOP support)	2.7	0.5	0.3	2.1	0.0	0.0	0.3	0.0	0.3	0.3	0.0	1.2	0.0	0.0	1.2	1.8	1.5
Total amortization	-2.5	-1.2	-1.8	-2.7	-0.4	-0.5	-0.3	-0.7	-0.7	-1.8	-0.2	-0.6	-0.2	-0.7	-1.8	-1.7	-1.7
Arrears and rescheduling	1.1	1.1	2.4	2.7	0.3	0.7	0.3	0.9	0.9	2.3	0.3	0.8	0.3	0.9	2.2	0.0	0.0
Domestic financing	-1.1	0.0	-0.9	-3.0	0.4	0.0	-0.8	-0.2	-0.5	-0.5	0.8	-1.2	0.0	-0.7	-1.0	-4.7	-4.2
Exceptional Financing 3/	0.4	0.2	0.2	1.1	0.2	0.0	0.1	0.1	0.1	0.5	0.0	0.0	0.0	0.1	0.2	0.2	0.1
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.7	4.4

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

1/ In the original program, other tax includes land tax and retail sales tax.

2/ Excludes transfer to Social Fund (columns for original program include transfer to Social Fund).

3/ Mainly privatization proceeds.

Table 9. Kyrgyz Republic: Medium-term Expenditure Framework for General Government
by Functional Classification, 2000-2007
(In percent of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007
	Act.	Act.	Act.	Est.	Proj.	Proj.	Proj.	Proj.
Total expenditure 1/	29.9	25.9	28.1	26.7	26.6	26.1	25.8	25.1
I. General public services	3.0	2.6	2.8	2.4	2.3	2.2	2.1	1.9
II. Defense	1.9	1.3	1.4	1.2	1.2	1.2	1.1	1.0
III. Public order and safety affairs	1.1	1.0	1.3	1.1	1.1	1.0	1.0	0.9
Social spending	12.2	12.1	14.1	13.8	13.9	13.9	14.4	14.6
IV. Education	3.5	3.6	4.2	4.2	4.2	4.6	5.0	5.3
V. Health	2.1	1.8	2.0	2.0	2.0	2.1	2.3	2.4
VI. Social security and welfare affairs 2/	1.9	2.0	2.5	2.0	2.3	1.8	1.7	1.7
VII. Pension Fund 3/	4.8	4.8	5.4	5.6	5.5	5.4	5.4	5.2
VIII. Housing and community services	1.1	1.1	1.5	1.3	1.3	1.2	1.1	1.0
IX. Recreational, cultural and religious activities	0.5	0.4	0.5	0.4	0.4	0.4	0.4	0.3
X. Energy complex (electricity production)	0.4	0.5	0.5	0.4	0.4	0.4	0.4	0.4
XI. Agriculture, water resources, forestry	3.2	2.3	2.6	2.2	2.2	2.1	2.0	1.8
XII. Mining and mineral resources	0.2	0.2	0.3	0.3	0.3	0.3	0.2	0.2
XIII. Transportation and communication	3.1	2.0	2.5	2.1	2.1	2.0	1.9	1.7
XIV. Other economic affairs and services	1.3	0.8	0.9	0.8	0.7	0.7	0.7	0.6
XV. Other	1.4	1.3	0.8	0.7	0.7	0.7	0.6	0.6
XVI. Unidentified expenditure	0.5	0.3	-1.1	0.0	0.0	0.0	0.0	0.0

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

1/ Including PIP and net lending.

2/ Excluding net transfer to Pension Fund.

3/ Social Fund operation net of transfers to other funds.

Table 10. Kyrgyz Republic: NBKR Accounts, 2002-04
(In millions of soms, end-period stocks) 1/

	2002			2003			2004			
	Dec. Act.	Mar. Prog.	Jun. Act.	Jun. Prog.	Jun. Act.	Jun. Prog.	Mar. Prog.	Jun. Prog.	Dec. Prog.	
Net foreign assets	6,104	6,079	6,460	6,522	6,741	7,325	6,930	7,114	8,325	8,627
Net international reserves	4,945	4,895	5,330	5,398	5,628	6,192	5,708	5,925	7,012	7,453
Other foreign assets	1,210	1,235	1,181	1,176	1,164	1,184	1,273	1,241	1,225	1,225
Balance with CIS countries	-51	-51	-51	-51	-51	-51	-51	-51	-51	-51
Long-term foreign liabilities	-2,643	-2,607	-2,689	-2,666	-2,666	-2,666	-2,496	-2,474	-2,452	-2,430
Net domestic assets 2/	4,198	4,205	4,293	4,192	3,982	4,013	4,238	4,030	4,096	3,930
Domestic credit (net)	5,611	4,063	5,737	5,143	4,932	5,063	4,940	4,870	4,682	4,393
Claims on government (net), o/w:										
Loan to government in forex (Turkish loan)	2,048	2,048	2,090	2,090	2,090	2,090	1,956	1,956	1,956	1,956
Total government deposits	-2,001	-2,067	-1,663	-1,972	-2,213	-1,875	-1,843	-2,745	-1,967	-2,869
Treasury bonds	4,219	2,423	4,198	4,298	4,295	4,298	4,298	4,298	4,098	4,098
Treasury bills	850	0	850	350	350	350	350	350	350	350
Repos	0	-125	-215	-100	-70	-259	-259	400	10	-50
Claims on commercial banks	495	498	477	477	477	458	437	477	417	407
Loans in foreign currency (EBRD/IDA loan)	370	353	353	346	353	353	313	313	313	303
Other items net	-1,413	142	-1,444	-1,087	-950	-1,050	-703	-840	-626	-463
Reserve money	7,659	7,677	7,871	7,986	8,429	8,672	8,672	8,122	9,566	10,128
Currency outside commercial banks	6,874	...	7,208	...	7,841	...	8,137	...	...	...
Deposits of commercial banks in forex	0	...	0	...	0	0	0	...	...	...
Currency holdings of commercial banks	184	...	226	...	248	...	236	...	...	...
Reserves of commercial banks	601	...	437	...	340	...	298	...	...	...
<i>Memorandum items:</i>										
Reserve money growth (12 month)	42.9	36.5	39.9	29.6	36.8	18.7	27.8	6.0	21.4	8.9
Gross reserves (in millions of U.S. dollars)	279.5	289.1	289.8	288.2	287.0	302.1	313.2	306.8	314.6	354.4
in months of imports	4.3	4.5	4.3	4.2	4.2	4.4	4.4	4.5	4.7	5.0
Net international reserves (in millions of U.S. dollars)	105.2	104.2	109.0	113.4	114.8	119.8	129.7	120.0	139.3	169.4
change over previous period (in millions of U.S. dollars)	24.6	8.0	3.8	4.4	5.9	6.3	16.9	0.2	9.6	6.9
Net domestic assets 5/	1,780	1,804	1,850	1,749	2,136	1,539	1,968	1,587	2,168	1,671

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

1/ Until September 2003, programmed and actual foreign exchange assets and liabilities are valued at the exchange rate of 47 soms per U.S. dollar, 1.3186 U.S. dollar per SDR and a gold price of U.S. dollar 322.4 per Troy ounce. Beginning December 2003, programmed foreign exchange assets and liabilities are valued at the exchange rate of 44 soms per U.S. dollar, 1.4318 U.S. dollar per SDR and a gold price of U.S. dollar 384.6 per Troy ounce. Actual September 2003 foreign exchange assets and liabilities are valued at both sets of exchange rates and gold prices, as indicated.

2/ Standard definition. Differs from program definition below.

3/ Excludes government securities issued to replace restructured bonds, as well as those issued for revaluation losses, lost capital in the Central Asia Development Bank and capitalized past interest arrears on bonds.

4/ Excludes revaluation losses, lost capital in the Central Asia Development Bank, and capitalized past interest arrears on bonds.

5/ Program definition. Excludes counterpart of the loan by the Eximbank of Turkey and the EBRD/IDA enterprise loan, which are channeled through the NBKR.

Table 11. Kyrgyz Republic: Monetary Survey, 2002-04
(In millions of soms, end-period stocks) 1/

	2002			2003			2004					
	Dec. Act.	Mar. Prog.	Mar. Act.	Jun. Prog.	Jun. Act.	Sep. Prog.	Sep. Act.	Sep. Act.	Dec. Prog.	Dec. Rev.	Dec. Prog.	
Net foreign assets	7,794	8,196	8,373	8,518	8,584	8,977	9,711	9,217	9,257	9,459	10,561	11,200
NBKR	6,104	6,079	6,268	6,460	6,522	6,741	7,325	6,935	6,734	7,334	8,186	8,627
Commercial banks	1,691	2,117	2,105	2,058	2,062	2,236	2,386	2,283	2,523	2,124	2,375	2,573
Long-term NBKR foreign liabilities	-2,643	-2,607	-2,689	-2,666	-2,666	-2,666	-2,666	-2,496	-2,642	-2,474	-2,452	-2,430
Net domestic assets	5,895	5,433	5,870	5,909	6,294	5,830	6,091	6,236	6,068	6,369	6,188	6,701
Claims on government (net), o/w:	5,606	4,149	6,003	5,294	6,003	5,053	5,420	5,328	4,521	5,199	5,885	4,297
Credit from the NBKR	5,116	3,690	5,475	4,766	5,400	4,525	4,864	4,762	3,993	4,638	5,324	3,736
Credit from commercial banks	490	458	528	528	603	528	556	561	528	561	561	561
Treasury bonds	126	126	126	126	126	126	120	120	126	120	120	120
Treasury bills	438	428	447	447	463	447	469	469	447	469	469	469
Other	-74	-95	-45	-45	21	-45	-33	-28	-45	-28	-28	-28
Credit to the rest of the economy, o/w:	3,136	2,602	3,212	3,467	3,502	3,628	3,711	3,550	4,289	3,747	3,586	4,806
in forex	2,176	2,241	2,241	2,419	2,419	2,419	2,560	2,399	2,560	2,560	2,560	2,560
Other items net	-2,847	-1,317	-3,345	-2,852	-3,211	-2,851	-3,040	-2,642	-2,741	-2,577	-2,456	-2,402
Broad money	11,046	11,022	11,553	11,760	12,213	12,142	13,136	12,958	12,683	13,353	13,798	14,999
Currency outside banks	6,873	...	7,207	...	7,839	...	8,139	8,139	...	8,676	8,957	9,718
Deposits, o/w:	4,173	...	4,346	...	4,373	...	4,997	4,818	...	4,677	4,841	5,281
in forex	2,742	...	2,796	...	2,853	...	3,422	3,243	...	2,993	3,099	3,380
Broad money: som component	8,304	8,410	8,758	8,965	9,360	9,248	9,715	9,715	9,689	10,360	10,700	11,619
Memorandum items:												
Velocity (quarterly) 2/	7.0	7.1	6.6	6.5	6.3	6.5	6.1	6.3	6.6	6.2	6.1	6.0
Som velocity (quarterly) 2/	9.3	9.4	8.8	8.5	8.3	8.6	8.2	8.2	8.7	8.1	7.8	7.5
Broad money growth (12 months)	35.1	27.4	33.6	32.5	37.6	22.4	32.4	32.5	14.8	22.7	21.1	15.8
Som broad money growth (12 months)	34.2	29.5	34.8	29.6	35.3	22.8	29.0	29.0	16.7	24.8	22.2	19.6
Multiplier	1.4	1.4	1.5	1.5	1.4	1.5	1.5	1.5	1.6	1.4	1.4	1.5
3-month treasury bill rate (annual compounded average)	8.6	...	6.0	...	9.5	...	10.0	10.0	...	...	...	...

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

1/ Until September 2003, programmed and actual foreign exchange assets and liabilities are valued at the exchange rate of 47 soms per U.S. dollar, 1.3186 U.S. dollar per SDR and a gold price of U.S. dollar 322.4 per Troy ounce. Beginning December 2003, programmed foreign exchange assets and liabilities are valued at the exchange rate of 44 soms per U.S. dollar, 1.4318 U.S. dollar per SDR and a gold price of U.S. dollar 384.6 per Troy ounce. Actual September 2003 foreign exchange assets and liabilities are valued at both sets of exchange rates and gold prices, as indicated.

2/ 12 month GDP over average quarterly broad money.

Table 12. Kyrgyz Republic: Quarterly Balance of Payments: 2002 - 2004
(in millions of USD)

	2002		2003							2004				
	Year Est.	Q1 Act.	Q2 Act.	Q3 Prog.	Q3 Rev. Prog.	Q4 Prog.	Q4 Rev. Prog.	Year Prog.	Year Rev. Prog.	Q1 Rev. Prog.	Q2 Rev. Prog.	Q3 Rev. Prog.	Q4 Rev. Prog.	Year Rev. Prog.
Current account balance	-62	12	-54	-17	-35	-12	11	-60	-66	-31	-20	-17	-18	-86
(excluding official transfers)	-121	0	-63	-32	-49	-27	-7	-119	-119	-40	-33	-32	-38	-144
Trade balance	-54	3	-41	-7	-32	-2	19	-37	-51	-28	-12	-17	-24	-82
Exports, fob 1/	498	121	115	152	146	151	162	567	545	136	132	128	153	549
CIS countries	170	40	39	50	52	46	52	180	182	50	48	48	67	213
Energy	28	3	3	18	11	8	11	33	28	7	15	17	5	43
Other	142	37	36	32	40	38	41	148	154	43	33	32	62	170
Non-CIS	328	81	77	102	95	105	110	387	363	86	84	80	86	336
Gold	163	54	46	56	68	60	67	203	235	51	51	50	48	199
Imports, fob	552	118	157	159	178	153	143	605	596	164	145	145	177	631
CIS countries	312	65	92	86	111	86	78	335	345	97	81	79	106	363
Energy	145	30	37	35	43	44	38	152	148	46	29	28	54	156
Other	166	34	55	51	68	42	40	183	197	52	52	52	52	207
Non-CIS	240	54	65	73	68	67	65	270	251	67	64	66	71	268
Services (net)	-67	-7	-20	-21	-13	-19	-25	-71	-65	-12	-19	-13	-16	-60
Non-interest service	-7	-1	-3	-8	-6	-7	-10	-26	-19	-4	-4	-4	-1	-14
Interest payments (scheduled)	-32	-2	-11	-4	-3	-12	-11	-31	-28	-3	-13	-3	-13	-32
o/w moratorium interest	-2	0	0	0	0	-2	-1	-3	-2	0	-1	0	-3	-3
Other net income	-27	-4	-6	-9	-4	0	-4	-14	-18	-4	-2	-5	-1	-13
Transfers (net)	58	16	8	12	10	9	16	48	50	9	12	13	22	56
Official	59	12	9	15	14	16	18	58	53	10	13	15	20	58
Private	0	4	-1	-3	-4	-6	-1	-11	-3	-1	-2	-2	2	-2
Capital account balance	75	8	9	17	28	-4	-18	29	27	21	1	15	6	43
Commercial banks	-10	-5	-3	-4	-4	-6	4	-18	-8	-3	-3	-5	0	-10
Medium-and long-term loans, net	22	7	4	21	18	-1	-10	11	19	13	-9	13	-12	5
Disbursement	80	14	17	26	23	27	18	82	73	19	19	19	19	75
CIS	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-CIS	80	14	17	26	23	27	18	82	73	19	19	19	19	75
Of which PIP	74	11	17	26	23	27	15	82	67	18	18	18	18	73
Amortization (scheduled)	-58	-7	-13	-5	-5	-28	-28	-71	-53	-5	-28	-5	-31	-69
Of which Kumtor	-18	0	0	0	0	-12	-12	-30	-12	0	-12	0	-12	-24
Foreign direct investment	5	4	2	6	8	7	-16	25	-7	11	5	12	6	33
Other assets (including acc. pay. & receiv.)	57	2	6	-6	5	0	9	11	22	-1	9	-5	12	15
Errors and omissions & short term capital	9	-21	35	0	14	0	0	0	28	0	0	0	0	0
Overall balance	22	-2	-9	0	7	-16	-7	-31	-12	-10	-18	-2	-12	-43
Financing	-22	2	9	0	-7	16	7	31	12	10	18	2	12	43
NIR	-63	-4	-6	-6	-17	0	-10	-15	-36	5	-25	-3	-7	-30
Gross official reserves (- increase) 2/	-57	-11	3	-14	-26	-5	-1	-27	-36	-4	-29	5	-11	-40
IMF (net)	-6	7	-9	8	9	5	-8	13	0	8	5	-8	5	10
Purchases and disbursements	15	16	0	13	13	13	0	41	29	13	13	0	13	40
Repurchases and repayments	-21	-9	-9	-5	-3	-8	-8	-28	-29	-5	-9	-8	-9	-30
Release of pledged reserves 3/	13	0	0	0	0	0	0	0	0	0	0	0	0	0
Exceptional Financing (including arrears)	21	6	15	6	5	16	17	41	43	5	18	5	19	48
Accumulation of arrears (net) 4/	1	-1	0	0	0	0	0	-1	-1	0	0	0	0	0
Debt rescheduling	19	7	15	6	5	16	17	42	44	5	18	5	19	48
on arrears	0	0	0	0	0	0	0	0	0	0	0	0	0	0
on principal	5	5	9	4	4	11	11	28	29	4	11	4	12	31
on interest	13	2	6	2	1	4	5	12	14	1	5	1	5	13
on moratorium interest	1	0	0	0	0	1	1	2	1	0	2	0	2	3
BOP support (ADB)	8	0	0	0	0	0	0	0	0	0	25	0	0	25
BOP support (WB)	0	0	0	0	5	0	0	5	5	0	0	0	0	0
Financing gap (-) (after fiscal measures)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum Items														
Gross reserves in months of imports	4.4	4.3	4.3	4.4	4.7	4.5	4.7	4.5	4.7	4.5	4.9	4.8	5.0	5.0

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

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

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

3/ Paris Club savings.

4/ An arrear arising from a commercial dispute in the amount of US\$1.14 million was accumulated in Q3 2002 and cleared in Q1 2003.

Table 13. Kyrgyz Republic: Medium-Term Balance of Payments, 2000-2010
(In millions of U.S. dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	Actual	Actual	Actual	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance 1/	-91	-51	-62	-66	-86	-117	-118	-111	-146	-163	-161
Trade balance	4	40	-54	-51	-82	-90	-106	-99	-151	-185	-196
Exports, fob	511	480	498	545	549	581	601	629	616	620	653
CIS countries	214	172	170	182	213	249	266	289	316	344	373
of which : Energy	82	52	28	28	43	63	67	72	77	82	88
Other countries	297	308	328	363	336	332	335	340	301	276	279
<i>Of which: Gold</i>	195	225	163	235	199	181	169	156	99	59	43
Imports, fob	507	440	552	596	631	671	708	729	767	805	849
CIS countries	280	250	311	345	363	390	421	449	478	508	542
Other countries	227	190	240	251	268	281	287	279	289	297	307
Services (net)	-171	-110	-67	-65	-60	-70	-51	-42	-31	-16	-1
Non-interest service	-87	-45	-7	-19	-14	-9	5	11	20	31	44
Receipts	62	81	138	151	163	177	190	207	225	246	270
Payments	-149	-125	-145	-171	-177	-186	-185	-196	-205	-214	-226
Interest payments (scheduled)	-51	-39	-32	-28	-32	-52	-48	-46	-44	-43	-42
o/w moratorium interest	0	0	-2	-2	-3	-7	-7	-7	-7	-7	-7
Other net income	-33	-26	-27	-18	-13	-9	-8	-8	-6	-4	-3
Transfers (net)	76	19	58	50	56	43	40	31	36	39	37
Official	62	34	59	53	58	44	39	29	29	29	24
Private	14	-15	0	-3	-2	0	0	3	7	10	13
Capital account balance	64	-10	75	27	43	34	47	79	94	118	157
Commercial banks	-2	-13	-10	-8	-10	-8	-8	-7	-5	-4	-4
Medium-and long-term loans, net	41	-24	22	19	5	-22	-14	9	17	21	39
Disbursement -Projects	131	74	80	73	75	80	72	80	88	98	104
Amortization (scheduled)	-91	-97	-58	-53	-69	-101	-86	-71	-71	-77	-65
Foreign direct investment	-7	-1	5	-7	33	50	55	67	72	91	112
Other assets (including accounts payable and receivable)	32	28	57	22	15	14	14	10	10	10	10
Errors and omissions and short term capital	10	19	9	28	0	0	0	0	0	0	0
Overall balance	-16	-42	22	-12	-43	-83	-71	-32	-52	-45	-4
Financing	16	42	-22	12	43	-28	-35	-42	-13	-17	-41
Net international reserves	-14	-18	-63	-36	-30	-28	-35	-42	-13	-17	-41
Gross official reserves (- increase)	-21	-16	-57	-36	-40	1	-10	-20	8	3	-20
IMF (net)	7	-2	-6	0	10	-29	-26	-22	-20	-20	-22
Purchases and disbursements	19	15	15	29	40	0	0	0	0	0	0
Repurchases and repayments	-11	-17	-21	-29	-30	-29	-26	-22	-20	-20	-22
Release of pledged reserves 2/	0	0	13	0	0	0	0	0	0	0	0
Exceptional Financing (including arrears)	30	19	21	43	48	0	0	0	0	0	0
Accumulation of Arrears (net)	1	-15	1	-1	0	0	0	0	0	0	0
Debt rescheduling	0	34	19	44	48	0	0	0	0	0	0
on arrears	0	0	0	0	0	0	0	0	0	0	0
on principal	0	16	5	29	31	0	0	0	0	0	0
on interest	0	18	13	14	13	0	0	0	0	0	0
on moratorium interest	0	0	1	1	3	0	0	0	0	0	0
BOP support loans (ADB) 3/	0	33	8	0	25	0	0	0	0	0	0
BOP support loans (WB) 3/	0	8	0	5	0	0	0	0	0	0	0
Financing gap (-)	0	0	0	0	0	-110	-106	-74	-65	-62	-45
Memorandum items:											
GDP (in millions of U.S. dollars)	1368	1527	1606	1903	2020	2193	2388	2603	2797	3009	3250
Current account balance (in percent of GDP)	-6.6	-3.3	-3.9	-3.5	-4.2	-5.3	-4.9	-4.3	-5.2	-5.4	-4.9
Growth of exports of goods and services (volume, percent)	7.7	-1.4	9.7	4.3	2.5	5.1	4.7	4.1	0.1	1.9	5.2
Growth of imports of goods and services (volume, percent)	-14.8	-13.6	19.3	6.2	4.2	4.5	2.6	1.9	3.1	2.8	3.4
Debt Service/ Exports (percent) 4/	21.5	24.0	14.3	9.7	11.8	24.0	20.1	16.6	16.1	16.2	14.0
Debt Service/ Govt. Revenue (percent) 4/	63.4	54.6	31.5	20.7	23.0	44.5	35.4	28.1	25.1	23.7	19.9
External Public Debt (US\$ million) 4/	1779	1629	1745	1915	1846	1915	1984	2030	2065	2105	2153
as percent of GDP 4/	130.0	106.7	108.6	100.6	91.4	87.3	83.1	78.0	73.8	69.9	66.3
External Public Debt (NPV Terms) 5/	1119	1181	1310	1361	1265	1285	1320	1344	1362	1383	1409
as percent of GDP 5/	81.8	77.3	81.6	71.5	62.6	58.6	55.3	51.6	48.7	46.0	43.3
External Public Debt/Exports (NPV Terms, percent) 5/	197.7	213.3	222.1	215.7	185.6	177.9	175.1	169.0	165.5	163.2	160.7
Gross reserves 6/	205	222	279	315	354	353	363	383	375	372	392
In months of subsequent year's imports	4.4	3.8	4.4	4.7	5.0	4.7	4.7	4.7	4.4	4.2	4.2
Financing gap as percentage of GDP	0.0	0.0	0.0	0.0	0.0	-5.0	-4.5	-2.8	-2.3	-2.0	-1.4

Sources: Kyrgyz authorities and Fund staff estimates and projections.

1/ Including transfers.

2/ Paris Club Savings

3/ BOP support loans for 1998-2000 are shown as part of disbursements under capital account.

4/ Excludes effects of potential Paris Club debt stock relief operation.

5/ Includes effects of potential Paris Club debt stock relief operation.

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

Table 14. Kyrgyz Republic: Indicators of Fund Credit, 2001-2007
(In percent, unless otherwise indicated)

	2001	2002	2003	2004	2005	2006	2007
Outstanding Fund credit (end-of-period)							
In millions of SDRs	143.3	136.4	136.0	143.0	122.1	103.5	87.4
In millions of U.S. dollars	181.1	176.6	189.0	198.4	169.0	143.0	120.6
In percent of quota	161.3	153.6	153.2	161.0	137.5	116.5	98.4
In percent of GDP	11.9	11.0	9.9	9.8	7.7	6.0	4.6
In percent of total exports	32.3	27.8	27.2	27.9	22.3	18.1	14.4
In percent of external public debt (including Kumtor)	11.1	10.1	9.9	10.8	8.8	7.1	5.9
In percent of external public debt (excluding Kumtor)	12.6	11.1	10.5	11.2	9.0	7.2	5.9
In percent of gross reserves at the beginning of the period	88.1	79.7	67.7	63.1	47.7	40.5	33.2
Debt service due to the Fund							
In millions of SDRs	13.2	19.1	22.4	22.3	21.3	18.9	16.3
In millions of U.S. dollars	16.7	24.7	31.1	30.9	29.5	26.2	22.6
<i>Of which:</i>							
Repurchases and repayments	16.1	24.0	30.1	30.2	28.9	25.7	22.2
Charges/interests	0.5	0.7	1.0	0.7	0.6	0.4	0.3
In percent of quota	14.9	21.5	25.2	25.1	24.0	21.3	18.4
In percent of GDP	1.1	1.5	1.6	1.5	1.3	1.1	0.9
In percent of total exports	3.0	3.9	4.5	4.3	3.9	3.3	2.7
In percent of total debt service (including Kumtor)	10.9	22.1	28.2	23.4	16.8	17.0	16.9
In percent of debt service (excluding Kumtor)	18.0	27.5	32.2	29.1	20.3	20.8	17.6
In percent of gross reserves at the beginning of the period	7.5	8.8	9.9	8.7	8.3	7.2	5.9

Sources: IMF, Finance Department; and Fund staff calculations.

Table 15. Kyrgyz Republic: Prospective Use of Fund Resources, 2003-2006
(in millions of SDR, unless otherwise stated)

	Outstanding End-Dec. 2002	2003	2004	2005	2006
SBA transactions	0.0				
Purchases		0.0	0.0	0.0	0.0
Repurchases		0.0	0.0	0.0	0.0
STF transactions	4.0				
Purchases		0.0	0.0	0.0	0.0
Repurchases		4.0	0.0	0.0	0.0
PRGF transactions	132.4				
Disbursements		21.3	28.7	0.0	0.0
Repayments		17.6	21.7	20.9	18.6
Total Fund credit outstanding	136.4	136.0	143.0	122.1	103.5
		(In percent of quota)			
Total Fund credit outstanding		153.2	161.0	137.5	116.5
Disbursements under PRGF		24.0	32.3	0.0	0.0

Sources: IMF, Finance Department; and Fund staff calculations.

Bishkek, Kyrgyz Republic
December 15, 2003

Mr. Horst Köhler
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. Köhler:

The Kyrgyz authorities held discussions with Fund staff in October–November 2003 for the fourth review under the PRGF arrangement. Based on these discussions, the attached Third-Year Memorandum of Economic Policies (MEP) reviews economic developments and policy implementation through September 2003, updates the macroeconomic framework, and discusses the financial policies and structural reform program for the third-year program (October 1, 2003–September 30, 2004). It supplements our earlier MEPs and supplementary MEPs under the current PRGF arrangement. It also proposes quantitative performance criteria for end-March and end-September 2004 as well as structural benchmarks for the period through September 2004.

All performance criteria for end-September 2003 were met, except that on the fiscal deficit. This target was exceeded by a small margin because a grant was not received as programmed, and we request a waiver of nonobservance regarding this deviation.

We consent to publication by the Fund of the MEP and the staff's report.

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

Yours sincerely,

/s/
Nikolai Tanaev
Prime Minister
Kyrgyz Republic

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

KYRGYZ REPUBLIC

THIRD-YEAR MEMORANDUM OF ECONOMIC POLICIES For the Period October 1, 2003–September 30, 2004

I. INTRODUCTION

1. This Memorandum of Economic Policies (MEP) sets forth our economic objectives and policies for the period October 1, 2003–September 30, 2004—the third year of the economic program supported by the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF). These objectives and policies are an integral part of our medium term strategy for poverty reduction, as described in the National Poverty Reduction Strategy (NPRS) paper of December 9, 2002. This third-year memorandum supplements previous memoranda, including the first-year MEP dated November 16, 2001 and supplemented on June 13, 2002, as well as the second-year MEP dated January 31, 2003 and supplemented on June 30, 2003.

II. PERFORMANCE UNDER THE PROGRAM

2. The Kyrgyz economy has returned to the targeted medium term growth path in 2003. Following zero growth in 2002, real GDP grew by 5.1 percent in the first nine months of 2003—led by the recovery of gold production—and we expect a broadly similar growth rate for the year as a whole. The 12-month consumer price inflation was 3.9 percent in October 2003, and we foresee a broadly similar rate of inflation at the end of the year. The current account deficit in the first nine months of 2003 (4.0 percent of GDP) was somewhat higher than projected earlier because of depressed energy exports and higher imports from CIS countries. The annual current account deficit is expected to decline to 3.5 percent because of higher gold prices and the recovery of gold production.

3. Poverty has declined further. According to our statistics, 44 percent of our population were poor at end-2002, 8 percentage points less than at end-2000. At the same time, however, poverty remains too high and poverty reduction remains our first priority.

4. We will reduce the fiscal deficit to 4.9 percent of GDP in 2003—an improvement of about 0.5 percentage point of GDP compared to 2002. The central government fiscal deficit target for end-September 2003 was exceeded by 0.2 percent of GDP because of a smaller-than-programmed European Union (EU) grant and natural disasters in the south of the country earlier in the year (Table 1). We believe that this deviation was minor and temporary, and it does not undermine program objectives. Therefore, we request a waiver of this performance criterion under the PRGF arrangement.

5. The targets for tax collection were met, and there were no budgetary arrears as monitored under the program. Social spending (i.e., health, education, and social benefits) has increased relative to GDP—from 12.1 percent in 2001 to a projected 13.8 percent in 2003. Regarding tax policy, we have modified the cigarette excise tax to eliminate the differential excise rates between domestically-produced and imported products (structural benchmark at end-September). We have also made progress in implementing the VAT to large-scale agriculture and publishing valuation guidelines for the real property tax. However, local authorities will still need some time to finalize their property tax procedures and start collection. Regarding tax administration, we have reduced tax arrears by some 270 million since January 1, 2003 and transferred 40 large taxpayers to the newly restructured Large Taxpayers Unit (LTU), as committed under the program.

6. Monetary conditions have been appropriately tight and remonetization has continued. The National Bank of the Kyrgyz Republic (NBKR) purchased \$19 million from the foreign exchange market during April-September 2003 and the adjusted end-September program floor for net international reserves (NIR) was exceeded by 9 percent of reserve money. Part of the foreign exchange inflow was sterilized through accumulation of government deposits in the central bank as well as through the NBKR's active use of open market operations. As a result, its net domestic assets (NDA) remained below the adjusted end-September program ceiling by 2 percent of reserve money. Some broad money has continued to expand rapidly although the growth rate dropped from 34 percent during 2002 to an annualized rate of 23 percent during the first nine months of 2003.

7. Banking reforms have advanced. We have carried out most measures under the 2003-05 reform program. To meet the program's structural benchmark at end-September 2003, amendments to the Law on Audits and the Law on Banks and Banking Activities have been submitted to parliament to strengthen commercial bank auditing. Progress in divesting Kairat Bank has, however, been slower than expected. The further delay in issuing the privatization tender (structural benchmark at end-September) was due to the prolonged process of hiring foreign privatization advisors and largely beyond our control. We now expect the tender to be issued by end-November 2003 and have already made a public announcement to that effect. Our work on developing strategies for the other two state-owned financial institutions (Savings and Settlement Corporation, SSC, and Kyrgyz Agriculture Finance Corporation, KAFC) is ongoing.

8. We have fulfilled about half of the measures under the governance agenda agreed in 2002. Among other measures, a corruption survey has been published and the National Integrity Council has begun its work. In addition, fiscal bulletins and a Medium Term Fiscal Framework (MTFF) have been made public. Also, functional reviews of several ministries have been completed. In addition, the legal appeal system has been simplified and extrajudicial arbitration is now possible.

9. The electricity sector quasi-fiscal deficit (QFD) amounted to 6.3 percent of annual GDP in January–June 2003, slightly more than half the program’s indicative target for the year as a whole (11.7 percent). However, improving cash collection and reducing losses during the remainder of the year should keep the electricity sector QFD below the program ceiling for end-2003. We expect to complete the sale of KyrrgyzTelekom by end-2003.

10. We have now completed our discussions on bilateral debt rescheduling agreements as committed under our Paris Club agreement. The agreements with China and Uzbekistan were signed in July 2003; those with India and Pakistan in November. Negotiations with the Kuwait Fund have, however, been unsuccessful.

III. PROGRAM FOR THE PERIOD OCTOBER 2003–SEPTEMBER 2004

Program Objectives, Economic Strategy, and Macroeconomic Framework

11. The Kyrrgyz economy has been developing broadly as targeted under our three-year economic program supported by the IMF. We have streamlined the externally financed Public Investment Program (PIP), and the fiscal adjustment has helped maintaining domestic savings while the use of foreign financing has declined. These developments are consistent with our external debt reduction strategy. With tight fiscal policies in the coming years, further increases in public savings and maintaining the level of private savings are projected. The total investment ratio is projected to reach 19½ percent of GDP in 2007. Achieving this level requires a 4 percentage points of GDP increase in private investment. About half of this increase is expected from foreign direct investment (FDI), including investments in our gold deposits.

12. The strategy for achieving our macroeconomic objectives remains largely unchanged. The growth strategy will continue to focus on strengthening structural policies, including in the energy sector, where reductions in the electricity sector QFD are needed in order to avoid undermining our stabilization efforts. For both FDI and domestic investment it is critical that the investment climate improves, which calls for strong policies to improve governance, reduce corruption, and continue financial sector reforms. The major macroeconomic constraint—the high external debt—will require continued fiscal consolidation to be achieved through more efficient revenue mobilization and some decline in the expenditure-to-GDP ratio. Export diversification is needed to offset the impact of the declining trend in gold production. This will require prudent monetary and fiscal policies to contain wage inflation. This, with our ambitious structural reform agenda should improve productivity and should ensure adequate cost competitiveness in the medium term.

13. Overcoming the challenges imposed by the debt overhang and dependence on a few export commodities is especially important because of the restrictive trading environment in our neighboring countries. In this respect, we expect that the accession process to the World Trade Organization (WTO) under way for Russia and Kazakhstan will help in the medium term. Meanwhile, we call on the International Financial Institutions to assist us in

seeking agreements with neighboring countries to facilitate trade and reduce trade restrictions.

14. The fragile fiscal position and high debt level severely limit our scope for financing social spending through higher fiscal deficits. Thus, poverty reduction must rely largely on economic growth, more effective service delivery, strengthened spending priorities, donor grants, and better targeting of social benefits. While protecting social spending to provide room for reducing distortionary production taxes, we will continue to improve tax collection, including through efficient implementation of the new agricultural VAT, property taxation, and the restructured LTU.

15. We recognize that fiscal discipline is the main challenge for the third annual program to avoid triggering macroeconomic imbalances. Failure would undermine the prospects for the Paris Club debt relief needed for debt sustainability and for covering the projected balance of payments financing gap in the second half of the decade.

16. We have revised the macroeconomic framework for 2004 and now expect real GDP growth to slow to 4.1 percent because of the decline in gold production. This forecast includes growth of 5–6 percent of non-gold industrial production and agriculture. The 12-month rate of inflation is projected at 3.8 percent, reflecting partly the implementation of the agricultural VAT and higher administered prices. Although gold exports are projected to decline, a recovery in energy exports and buoyant demand from Russia and Kazakhstan are expected to lead to a small increase in overall exports. Imports would grow faster, however, with expanding domestic demand driven by investment, including through construction of a new gold mine. The current account deficit would be higher, at 4.2 percent of GDP, with the reserve coverage rising to 5.0 months of imports.

17. The following sections specify further our intentions in fiscal, monetary and exchange rate, external, as well as structural policies for the period October 1, 2003–September 30, 2004.

Fiscal Policies

18. We will cut expenditures by some 495 million (0.6 percent of GDP) in the last quarter of 2003 to keep the fiscal program on track. The measures include: (1) postponing the wage increases for the military and security services, the national guard, and the military prosecutors to January 1, 2004 (some 35 million)—the delay will be compensated in the 2004 budget; (2) reducing budget transfers to various government agencies (some 60 million); (3) postponing capital repair (some 30 million); (4) reducing planned travel expenditures (some 40 million); (5) cutting planned purchases of equipment (some 70 million); (6) reducing expenditures on public utilities (some 50 million) and transportation (some 20 million); (7) cutting spending on other goods and services (some 130 million); and (8) postponing domestically financed capital expenditures (some 60 million). We will take additional measures to meet the 2003 fiscal deficit target of 4.9 percent of GDP, if the need arises. All government agencies will have to start acting immediately to implement this package.

19. We intend to reduce the fiscal (cash) deficit further from a projected 4.9 percent of GDP in 2003 to 4.4 percent in 2004. This consolidation stems from both the mobilization of additional tax revenues (equivalent to 0.5 percent of GDP) and the rationalization of expenditures (equivalent to 0.1 percent of GDP). The increase in the state government tax ratio will require prompt implementation of the recent tax legislation on the agricultural VAT and the property tax. Expenditure discipline is especially important in the non-priority sectors and for new investment projects. We recognize that passage by parliament of the 2004 State and Social Fund budget laws consistent with this memorandum will be a prior action for completion of the fourth review under the PRGF arrangement.

20. The extension of the VAT to direct sales of large agricultural producers will expand the tax base in 2004. The additional revenue collection is estimated to be equivalent to 0.3 percent of GDP, and more in later years. Our fiscal program also assumes that all local authorities will have in place their property tax legislations in January 2004, increasing our annual revenues forecast by 0.1 percent of GDP. This estimate takes into account revenue losses from repealing several local taxes (such as the resort and hotel taxes) to gradually make the property tax the primary revenue tool of local governments, thereby improving the efficiency of revenue collection.

21. Effective April 1, 2004, we will introduce (as a structural benchmark) a package of tax policy measures that will improve the efficiency of the revenue system and lower administration costs. These measures include: (1) aligning the general VAT threshold more closely to international practice and unifying it with that applied to agriculture (raising it from som 300,000 to som 500,000); (2) restructuring the current small business tax to be more consistent with the new VAT threshold—it will apply to small businesses below the threshold instead of the profit tax, VAT, road tax, and emergency tax; (3) reviewing the current list of VAT exemptions to ensure that goods sold for final consumption are not inappropriately exempt from VAT; and (4) zero rating exports of services and defining the place of supply consistent with best international practices. Regarding the patent tax system, we will reduce the scope of voluntary patent taxes, including by increasing the tax amounts for voluntary patent taxes by 25 percent on average to provide incentive to register under the small business tax scheme. We will not expand the existing application of the mandatory patent tax beyond what has been agreed in previous MEPs.

22. Tax administration will benefit from strengthening further the LTU. In particular, we will start operating a separate enforcement unit under the LTU in January 2004. A proper self-assessment system will be made operational for 30 percent of large taxpayers in April 2004 and for all of them in January 2005. The criteria for selecting large taxpayers will be published by January 1, 2004. In addition, we will reduce the stock of outstanding VAT refunds due to large taxpayers (som 69 million) by 50 percent by end-September 2004. No new net arrears will be accumulated beginning October 1, 2003, and all refunds will be in cash (no offsets or in-kind payments).

23. We project 2004 total expenditures (excluding net lending) to remain below 2003 levels measured in percent of GDP. Most importantly, the increase in the wage bill (including Social Fund contributions) will be confined to a 15-percent increase for teachers, nurses, and doctors on April 1, 2004. A further increase is scheduled for October 1, 2004 in order to bring the overall increase during the year to 30 percent assuming that resources are available. This will be discussed with the IMF staff during the fifth review mission in May 2004. The rationalization of public sector employment could create room for increasing other public sector wages in 2004. The annual pension bill will rise by 7 percent as a result of increasing the monthly base pension from som 200 to som 222.6 on January 1, 2004, and the average monthly pension by 9 percent on April 1, 2004. The envelope also includes som 1,128 million in state budget transfers to the Social Fund (excluding the package of social compensation for higher electricity user costs described below). Consistent with the medium term strategy of containing borrowing under the PIP, the externally financed PIP will be further streamlined from a projected 3.7 percent of GDP in 2003 to 3.6 percent (som 3,212 million) in 2004.

24. The proposed fiscal program includes social compensation of 0.2 percent of GDP conditional on rising user costs of electricity. This package includes a som 15 increase in the Unified Monthly Benefit (net of the base increase) and a som 10 increase in specific monthly tariff compensation for pensioners. In addition, we are going to utilize the existing compensation mechanism, such as discounted tariffs for selected groups and a flat subsidy to low income households, while understanding these measures need to be streamlined in the future. The additional transfer to the Social Fund needed for this compensation package is som 63 million.

25. To tighten expenditure control, we will refrain from issuing any decrees or other legislation that would result in unbudgeted expenditures unless offsetting expenditure savings have been identified in the same decree or legislation. This policy will be made effective immediately. A new Medium Term Fiscal Framework (MTFF) for 2005-2007 based on key line ministries' quantified medium-term policy plans will be approved and published by the Economic Policy Council (EPC) by end-March 2004 (a structural benchmark).

26. The coverage of fiscal performance criteria under the program will remain unchanged. They include cash tax collections of the state and Social Fund budgets, the cash deficit of the state budget, and avoidance of budgetary arrears in wages, pensions, categorical grants, mandatory transfers to the Social Fund, energy bills to the former KyrgyzEnergo distribution companies, allowances to poor families, and Social Fund transfers to the Medical Insurance Fund.

Monetary and Exchange Rate Policies

27. Our monetary program is designed to keep inflation below 4 percent. The expected increase in money demand, reflected in a 9-percent decline in som velocity, would be accommodated by 20-percent som broad money growth during the program period.

Accounting for a rising money multiplier with more confidence in the banking sector, reserve money is programmed to grow by 16 percent during the program period. The NBKR stands ready to use open market operations to slow the expansion of monetary aggregates in case we perceive any sign of rekindling inflation. Fiscal consolidation and the expected donor financing should support an increase of NIR by \$32.8 million during the program period. The expected surplus in the primary fiscal balance (excluding the foreign financed component of the PIP) should reduce NDA by some 42 million.

28. The NBKR will continue its exchange rate policy of managed floating. It will intervene on the foreign exchange market only to smooth temporary variations of the nominal exchange rate and to strengthen the official foreign reserve position. In our medium term strategy, we believe that the tradable goods sector's competitiveness is better served by containing price and wage inflation rather than by a nominal exchange rate depreciation.

External Sector Policies

29. We will maintain a free trade and exchange regime. In particular, we continue to apply under the third year program the continuous performance criterion on not imposing or intensifying restrictions on payments and transfers for current international transactions, introducing multiple currency practices, or concluding bilateral payments agreements that are inconsistent with the IMF's Article VIII. We will also refrain from imposing new or intensifying existing import restrictions for balance of payments reasons, such as seasonal tariffs or non-tariff barriers on agricultural and other imports and honor our commitments under regional trade agreements. We will address trade restrictions in the region through regional initiatives, the WTO, and in the context of the CIS-7 initiative. In particular, we will continue our discussions with Uzbekistan and propose to Kazakhstan negotiations on harmonizing investment regulations and non-tariff barriers in transit transportation. We will further promote free regional trade on our part by simplifying our transit transportation policies as well as customs procedures. More generally, we will review regional trade arrangements to identify overlaps and regularize our trade agreements. We will also publish a database of legislation and regulations governing foreign trade. As part of our efforts to diversify the export base of the Kyrgyz economy, we will develop a market based export promotion strategy for discussion with the IMF staff.

Structural Policies

30. We will continue our 2003-05 banking sector reform program during the third year of the PRGF arrangement (Box 1). While the privatization of Kairat Bank, now expected in mid-2004, should proceed smoothly, a reputable international firm will finalize by end-June 2004 an external audit of the 2003 financial statements of KAFC as well as an assessment of its loan portfolio. On this basis, we will assess the operational sustainability and financial viability of KAFC and develop options for its future institutional reform. Meanwhile, no banking license will be issued for KAFC. An IAS-based audit by an international reputable firm will be conducted for the SSC by end-June 2004. We will also continue strengthening bank supervision both through strengthening banking legislation and

improving the efficiency of the bank inspection process. In particular, by end-March 2004, we will identify amendments to existing legislation needed to ensure that banking regulation is not undermined by legal inconsistencies. We will also propose to parliament amendments to the Law on Banks and Banking Activities concerning consolidated supervision of banks and bank holdings, in line with the Basle Core Principles for Effective Banking Supervision. In this context, the 15-percent maximum ownership threshold for financial institutions on bank capital would be lifted. Furthermore, the NBKR will adopt by end-January 2004 the new supervisory manual. Regarding deposit insurance, we will draft a concept paper by end-March 2004 that will identify the required funding of the scheme and other necessary prerequisites for its introduction in the medium term. We will adopt several measures aimed at improving corporate governance within banks, including through increasing the accountability of employees of banks and other financial institutions. Finally, the NBKR will continue modernizing the payments system with assistance from the World Bank.

31. Regarding the compensation of depositors for their lost savings, we will issue by end-November 2003 a third government resolution that will regulate the compensation (up to som 10,000) of the individual depositors of the three failed commercial banks, with the maturity and interest rate mentioned in the June 2003 supplementary MEP. The bonds will be negotiable to provide an opportunity for those depositors who prefer cash to sell them in the market. The NBKR will, however, not make a market for these securities nor purchase them on its own account.

32. The fact that several governance indicators place the Kyrgyz Republic behind the more advanced reformers among the CIS countries, including Russia, requires strong action by the government (Box 2). The government will concentrate on fiscal transparency and improving its internal organization. Under the third year program, the National Integrity Council (NIC) has begun its work. In the coming months, the NIC will elaborate a strategy to reform the system of governance to respond to medium- and long-term development priorities set in the National Poverty Reduction Strategy paper and in the Comprehensive Development Framework (CDF). Furthermore, we will reorganize by end-September 2004 the structure and management system of the Ministry of Agriculture headquarters according to a December 2002 agreement with the EU Food Security Program. By end-September 2004, we will also develop proposals to reorganize the regional structure of the Ministry of Agriculture and all agencies reporting to it, including oblast and rayon subordinated units. The other remaining governance agenda will be carried out under the World Bank and Asian Development Bank (ADB) lending operations.

33. We will reduce the electricity sector quasi-fiscal deficit by som 995 million (2 percentage points of GDP) in 2004. To achieve this indicative target under the program, we will use tariff policy and measures to increase cash collection and reduce losses. The targets for end-June and end-December 2004 are set at som 4,900 million and som 8,650 million, respectively.

IV. PROGRAM MONITORING

34. To monitor policy implementation under the third-year program, we have set out several quantitative and structural performance criteria and benchmarks for end-March as well as end-September 2004 (Tables 2 and 4). We understand that there may be an opportunity to update the quantitative performance criteria and indicative targets for end-September in the context of the fifth review, which we expect to be completed by end-June 2004. Detailed definitions of the quantitative targets appear in the Technical Memorandum of Understanding (TMU) (Annex 1).

35. The Government and the NBKR believe that the policies set forth in this memorandum are adequate to achieve the objectives of the economic program, but they will take any further measures that may become appropriate for this purpose. The Kyrgyz Republic will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEP, in accordance with the Fund's policies on such consultation.

Box 1. Banking Sector Reform Program for 2004

Bank supervision and regulatory framework

1. Submit to parliament amendments to the Law on Banks and Banking Activities concerning consolidated supervision of banks and bank holdings, including the elimination the 15 percent maximum ownership threshold for financial institutions on bank capital—by end-December 2003. (IMF)
2. Adoption by the NBKR of the new supervisory manual—by end-January 2004. (IMF)
3. Identify amendments to existing legislation to ensure that banking legislation is not undermined by legal inconsistencies—by end-March 2004. (IMF)
4. Submit to parliament amendments to the AML/CFT law to reflect the June 2003 recommendations by the Financial Action Task Force on Money Laundering (FATF)—by end-March 2004. (IMF)
5. Prepare, in close coordination with the IMF, a concept paper on deposit insurance that will identify the required funding of the scheme and the other necessary prerequisites for its introduction in the medium term—by end-March 2004. (IMF)
6. Submit to parliament amendments to the Bank Secrecy Law and the Law on Banks and Banking Activity to eliminate inconsistencies with the Basle Principles regarding bank secrecy. In particular, allow the disclosure of confidential information to foreign banking supervision agencies based on bilateral agreements—by end-September 2004. (IMF)
7. Submit to parliament amendments to the Code of Administrative Liability and the Law on Banks and Banking Activity to increase monetary fines levied against employees of banks and financial institutions that are licensed and regulated by the NBKR—by end-September 2004. (IMF)
8. Ensure compliance with NBKR requirement to raise, by end-2005, minimum own capital to som 60 million. (IMF)
9. Require banks to produce their 2003 and subsequent financial statements in accordance with IAS. (IMF, WB)

State-owned banks

1. Issue a privatization tender for Kairat Bank—by end-November 2003. (WB)
2. Conduct an IAS-based audit by an international reputable firm for the SSC—by end-June 2004. (IMF, WB)
3. Complete external audit of the 2003 financial statements of KAFC as well as the assessment of its loan portfolio, both conducted by a reputable international firm—by end-June 2004. (IMF, WB)

Box 2. Governance Reform Measures for 2004 1/

Institution building

1. The NIC to prepare a strategy to reform the system of governance in order to provide for effective advancement of reforms and to respond to long-term development priorities set in the CDF and NPRS—by end-March, 2004. (IMF)
2. Prepare plan to restructure State Commission for Procurement; amend Public Procurement Law in line with EU directives—by end-September, 2004. (WB)

Public awareness

1. Prepare quantitative medium-term policy frameworks for the Ministries of Education, Health, and Agriculture—by end-February, 2004. (IMF, WB)
2. Approve and publish the 2004–07 Medium-Term Fiscal Framework—by end-March 2004. (IMF)
3. The EPC to adopt a concept paper regarding the deregulation of the economy and creation of a favorable business and investment climate based on the principles set forth by the Ukaz of the President of the Kyrgyz Republic No. 100 dated April 25, 2002—by end-March 2004. (IMF)
4. Require changes to or new business legislation, regulations, and application of such legislation, including changes in rates, amounts, or units, to be open to public consultation for a minimum of 60 days prior to enactment by the government by publishing the proposed changes in the mass media and on the government website. Ensure that these changes can only come into effect a minimum of 3 months after enactment—by end-March 2004. (IMF, WB)
5. Draft the National Agricultural Policy Document and Rural Development Strategy for discussion in the EPC—by end-June 2004. (IMF)

Efficiency of public administration

1. Complete the horizontal functional analysis of the Ministry of Foreign Trade and Industry, the State Antimonopoly Commission, KyrgyzStandard, the State Committee on Entrepreneurship, the Investment Promotion Center, and other agencies, with the objective of identifying duplicative functions, consolidating similar functions, and minimizing control, auditing, and inspection functions—by end-January 2004. (IMF)
2. Complete a review of the reorganization of the ministries and regulatory agencies with significant economic responsibilities on the basis of recommendations made in earlier functional analysis reports—by end-March 2004. (IMF)
3. Approve a program to reform the system of mandatory non-tax payments related to business operations, including so-called “special means” payments—by end-March 2004. (IMF, WB)
4. Appoint Permanent Secretaries for key ministries and strengthen role of financial officers in line ministries—by end-June 2004. (IMF, WB)
5. Reorganize the organizational structure and management system of the Ministry of Agriculture headquarters according to a December 2002 agreement with the EU Food Security Program—by end-September 2004. (IMF)
6. Develop proposals to reorganize the regional structure of the Ministry of Agriculture and all agencies reporting to it, including oblast and rayon subordinated units—by end-September 2004. (IMF)

Corporate governance

1. Introduce IAS 2001 for all enterprises listed on the Kyrgyz Stock Exchange (KSE)—by end- January 2004. (ADB)
2. Approve new law on national standards for asset valuation—by end-March 2004. (ADB)
3. Amend relevant regulations on pledges as recommended by the ADB—by end-March 2004. (ADB)

Legal system

1. Review the court fee system with a view to reduce fees to 3 percent of par value of collateral—by end-December 2003. (IMF)
2. Improve legal tools to ensure value of collateral—by end-March 2004. (ADB)
3. Submit to parliament laws on the following matters: “On the Protection of the Rights of Businesses during Inspections and Auditing,” “On the Foundations for Technical Regulation in the Kyrgyz Republic,” and “On Amendments and Additions to the Law of the Kyrgyz Republic on Licensing.”—by end-March 2004. (IMF)

1/ Most of the governance measures will be carried out under the World Bank (WB) and Asian Development Bank (ADB) lending operations, as indicated.

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

	2002			2003			September					
	December		March	June		September	Performance		Actual			
	Program	Adjusted		Program	Adjusted		Program	Adjusted				
I. Performance criteria												
1. Floor on net international reserves of the NBKR in convertible currencies (eop stock, in millions of U.S. dollars) 2/	96.1	94.9	105.2	104.2	97.2	109.0	113.4	103.2	114.8	119.8	114.4	131.7
2. Ceiling on net domestic assets of the NBKR (eop stock)	1,920	1,976	1,780	1,804	2,131	1,850	1,749	2,224	2,136	1,539	1,795	1,588
3. Ceiling on cumulative fiscal deficit of the state government 3/	1,548	n.a.	1,339	2,713	n.a.	2,390	3,351	n.a.	3,748	4,401	n.a.	4,527
4. Cumulative floor on state government tax collections in cash 3/	3,025	n.a.	3,085	5,303	n.a.	5,343	8,280	n.a.	8,216	11,437	n.a.	11,442
5. Ceiling on the stock of central government budget arrears	0	n.a.	0	0	n.a.	0	0	n.a.	0	0	n.a.	0
6. Ceiling on the stock of Social Fund pension arrears	0	n.a.	0	0	n.a.	0	0	n.a.	0	0	n.a.	0
7. Floor on payroll collections in cash of the Social Fund 3/	975	n.a.	920	1,715	n.a.	1,777	2,515	n.a.	2,628	3,389	n.a.	3,602
8. Ceiling on the stock of Social Fund arrears to the Medical Insurance Fund	50	n.a.	43	40	n.a.	38	20	n.a.	20	10	n.a.	10
9. Ceiling on contracting or guaranteeing by the state government or NBKR of new nonconcessional external debt of less than one year (in millions of U.S. dollars) 4/	0	n.a.	0	0	n.a.	0	0	n.a.	0	0	n.a.	0
10. Ceiling on contracting or guaranteeing by the state government or NBKR of new nonconcessional external debt with a maturity of one year or more (cumulative, in millions of U.S. dollars)	0	n.a.	0	0	n.a.	0	0	n.a.	0	0	n.a.	0
11. Ceiling on accumulation of new external payment arrears (in millions of U.S. dollars) 4/	105.0	n.a.	1.14	0	n.a.	0	0	n.a.	0	0	n.a.	0
II. Indicative targets												
1. Ceiling on reserve money (NBKR liabilities)	7,432	n.a.	7,659	7,677	n.a.	7,871	7,985	n.a.	8,429	8,057	n.a.	8,672
2. Ceiling on the electricity sector quasi-fiscal deficit (in millions of som)	...	...	9,024	...	...	...	...	...	...	...	...	...

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

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

2/ Foreign exchange components are valued at the exchange rate US\$1 = som 47, gold holdings valued at US\$322.4 per ounce, SDR valued at SDR 1 = US\$1.3186. Targets exclude net claims to BRO countries.

3/ Cumulative begins on October 1, 2002.

4/ On a continuous basis.

Adjustors

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

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

Table 2. Kyrgyz Republic: Third-Year Quantitative Program Targets 1/
(in millions of soms, unless otherwise indicated; eop)

	2003		2004			
	December	March	June	September	December	
	Benchmarks	Performance	Indicative	Performance	Indicative	
	Program	Criteria	Targets	Criteria	Targets	Program
I. Performance criteria						
1. Floor on net international reserves of the NBKR in convertible currencies (eop stock, in millions of U.S. dollars)	139.3	134.6	159.4	162.5	169.4	169.4
2. Ceiling on net domestic assets of the NBKR (eop stock)	2,168	2,656	1,827	1,926	1,671	1,671
3. Ceiling on cumulative fiscal deficit of the state government	835	2,052	3,118	4,183	600	600
4. Cumulative floor on state government tax collections in cash	3,398	5,845	8,966	12,503	4,063	4,063
5. Ceiling on the stock of central government budget arrears	0	0	0	0	0	0
6. Ceiling on the stock of Social Fund pension arrears	0	0	0	0	0	0
7. Floor on payroll collections in cash of the Social Fund	910	1,755	2,657	3,703	1,081	1,081
8. Ceiling on the stock of Social Fund arrears to the Medical Insurance Fund	0	0	0	0	0	0
9. Ceiling on contracting or guaranteeing by the state government or NBKR of new nonconcessional external debt of less than one year (in millions of U.S. dollars)	0	0	0	0	0	0
10. Ceiling on contracting or guaranteeing by the state government or NBKR of new nonconcessional external debt with a maturity of one year or more (cumulative, in millions of U.S. dollars)	0	0	0	0	0	0
11. Ceiling on accumulation of new external payment arrears (in millions of U.S. dollars)	0	0	0	0	0	0
II. Indicative targets						
1. Ceiling on reserve money (NBKR liabilities)	9,298	9,566	9,831	10,069	10,128	10,128
2. Ceiling on the electricity sector quasi-fiscal deficit (in millions of som)	9,645	...	4,900	...	8,650	8,650

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

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

Table 3. Structural Performance Criteria and Benchmarks Through End-September 2003

	Structural Benchmarks (end-January 2003)	Assessment on Implementation
1.	Submit to parliament draft Anti-Money Laundering and Combating Financing Terrorism (AML/CFT) legislation.	Observed
2.	Publish the list of the 50 largest tax payers.	Observed
3.	Eliminate the specialized bank status.	Observed
	Structural Performance Criteria (end-March 2003)	
1.	Adoption by the upper house of parliament and enactment of the VAT extension on the direct sales of large agricultural producers.	Observed with delay Adopted by parliament by end-March, but signed by President on April 14.
2.	Adoption by parliament and enactment of a new tax law on real property.	Observed with delay Upper House approved with a one-week delay; signed by President on April 30.
3.	Approval by the Economic Policy Council and publishing of the 2004-2006 Medium-Term Budget Framework designed to achieve real GDP growth of 5 percent and inflation of not more than 4 percent a year.	Observed
	Structural Benchmarks (end-March 2003)	
1.	Reduce arrears on VAT refunds as specified in paragraph 16 of the SMEP.	Observed
2.	Issue implementation regulations for extra-judicial arbitration of commercial disputes.	Observed
3.	Develop a commitment control and arrears tracking system on a manual basis.	Observed
4.	Issue a privatization tender for KAIRAT bank.	Not observed
	Structural Benchmarks (end-September 2003)	
1.	Modify the cigarette excise tax to eliminate the current differential excise rates between domestically-produced and imported products by implementing a non-discriminatory ad valorem excise tax.	Observed
2.	Submit to parliament amendments to the Law on Audits, as described in paragraph 16 of the SMEP	Observed
3.	Issue a privatization tender for KAIRAT Bank, as described in paragraph 16 of the SMEP.	Observed with delay The tender was issued on November 25
4.	Develop a semi-annual reporting framework for the electricity sector quasi-fiscal deficit, as specified in Table 12 of the Supplementary TMU, and present to Fund staff the first report, based on end-June 2003 data.	Observed

Table 4. Structural Conditionality in the Third Annual Program

Prior action for completion of the fourth review

- Adoption by parliament of the 2004 State Budget Law and Social Fund Budget Law consistent with fiscal targets and measures as specified in paragraphs 19 and 23, and Table 2 of the Memorandum of Economic Policies.

Structural benchmarks for end-March 2004

- Approve and publish 2004–07 Medium Term Fiscal Framework based on quantified policy plans in key line ministries (Ministries of Education, Health, and Agriculture).
- Adopt tax policy package as described in paragraph 21 of the Memorandum of Economic Policies.

Structural benchmarks for end-June 2004

- Complete external audit of the 2003 financial statements of KAFC as well as the assessment of its loan portfolio, both conducted by a reputable international firm—by end-June 2004.

Structural benchmarks for end-September 2004

- Submit to parliament amendments to the Bank Secrecy Law and the Law on Banks and Banking Activity to eliminate inconsistencies with the Basle Principles regarding bank secrecy. In particular, allow the disclosure of confidential information to foreign banking supervision agencies based on bilateral agreements.
- Submit to parliament amendments to the Code of Administrative Liability and the Law on Banks and Banking Activity to increase monetary fines levied against employees of banks and financial institutions that are licensed and regulated by the NBKR.

TECHNICAL MEMORANDUM OF UNDERSTANDING

1. The Kyrgyz Republic's performance under the third-year PRGF-supported program will be assessed by the IMF on the basis of the observance of quantitative performance criteria and structural benchmarks. This annex and the tables attached to the MEP define the quantitative performance criteria and indicative targets (Table 2 attached to the MEP), the structural benchmarks (Table 3 attached to the MEP), as well as the monitoring requirements.⁷

I. QUANTITATIVE TARGETS

2. Quantitative targets (i.e., quantitative benchmarks for end-December 2003, quantitative performance criteria for end-March and end-September 2004, and indicative targets for end-June and end-December 2004) are defined below and summarized in Table 2 of the MEP. The performance criteria for end-September 2004 and indicative targets for end-June and end-December 2004 can be updated in the context of the fifth review.

Floor on net international reserves of the NBKR in convertible currency

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

4. Total gross international reserves of the NBKR shall be defined as the NBKR holdings of monetary gold, holdings of SDRs, any reserve position in the IMF, and any holdings of convertible currencies in cash, debt instruments (including accrued interest) or with foreign banks. Amounts pledged as collateral or in swaps or otherwise blocked, capital subscriptions in foreign financial institutions, and non-liquid assets of the NBKR are excluded. Excluded are net forward positions, defined as the difference between the face value of foreign currency denominated NBKR off-balance sheet claims on non-residents and foreign currency obligations to both residents and non-residents. In addition, net claims on other BRO countries are excluded from the ceiling. For program monitoring purposes, gross international reserves shall be valued at a fixed program exchange rate of som 44 per U.S. dollar (\$) and \$1.4318 per SDR. Official gold holdings shall be valued at \$384.6 per troy ounce. Program cross exchange rates are listed in Table 13 below.

⁷ Central government and Republican government are synonymous in this memorandum. State government comprises central and local governments. General government comprises state government and Social Fund finances.

5. Total international reserve liabilities of the NBKR in convertible currencies shall be defined as outstanding liabilities to the IMF and other convertible currency liabilities of the NBKR to non-residents with an original maturity of up to and including one year. For program monitoring purposes, total international reserve liabilities shall be valued at the program exchange rates. Thus calculated, the stock of net international reserves in convertible currencies amounted to \$129.7 million as of September 30, 2003.

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

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

	(In millions of U.S. dollars)
September 30, 2003 (actual)	129.7
December 31, 2003 (benchmark)	139.3
March 31, 2004 (performance criterion)	134.6
June 30, 2004 (indicative target)	159.4
September 30, 2004 (performance criterion)	162.5
December 31, 2004 (indicative target)	169.4

1/ End-of-period stocks.

2/ In the event the base value of September 30, 2003 is revised, the program targets will be revised by the same amount.

7. The floor on net international reserves of the NBKR will be adjusted: (i) upward/downward by 100 percent for any excess/shortfall in net foreign financing of the state government budget and cash grants; and (ii) upward/downward by 100 percent for any excess/shortfall in cash privatization receipts. Valued at the program exchange rate, the programmed cash privatization receipts are equivalent to \$2.75 million in the fourth quarter of 2003 and \$1.75 million in the fourth quarter of 2004. The adjustment for shortfalls in adjustors (i) and (ii) is to be limited to \$15 million each, valued at the program exchange rate. In the case of a release of the NBKR's pledged foreign reserves, the NIR floor will be adjusted upward/downward by 100 percent for any excess/shortfall in the net effect of the releases and related amortization payments. The programmed net effect is \$0.36 million in the fourth quarter of 2003 and the first and second quarter of 2004, and \$0.12 in the third quarter of 2004.

8. 'Net foreign financing and cash grants' is defined as balance of payment support loans plus cash grants to the state government budget plus any changes in the balance of unused PIP funds held in the NBKR minus amortization payments by the Ministry of Finance and NBKR (excluding repayments to the Fund). This definition applies to the adjustors to

NIR and NDA. The programmed cumulative net foreign financing is as follows (Table 2). The balance of unused PIP funds was equivalent to \$0.033 million on September 30, 2003.

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

	(In millions of U.S. dollars)
December 31, 2003	3.15
March 31, 2004	2.60
June 30, 2004	30.46
September 30, 2004	35.51
December 31, 2004	37.63

Ceiling on the net domestic assets of the NBKR

9. Net domestic assets of the NBKR are defined as reserve money of the NBKR (defined below) minus the NBKR's net foreign assets⁸ minus the medium- and long-term NBKR obligations (MLT) minus the counterpart of the loan by the Eximbank of Turkey minus the counterpart of the EBRD and IDA enterprise loans (see equation 1 below).

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

10. Thus defined, the NBKR's net domestic assets consist of: (a) gross credit to the general government from the NBKR minus deposits of the general government with the NBKR minus the counterpart of the loan by the Eximbank of Turkey; (b) gross credit to domestic banks by the NBKR minus the counterpart of the EBRD and IDA enterprise loans; and (c) all other net assets of the NBKR (other items net). Thus defined, the stock of the NBKR's net domestic assets amounted to som 1,968 million on September 30, 2003.

⁸ The NBKR's net foreign assets consist of net international reserves, as defined in this TMU, plus other foreign assets plus the net claims on other BRO countries.

11. The program ceilings on the NDA of the NBKR are reported in Table 3 below.

Table 3. Ceilings on the NDA of the NBKR 1/ 2/

	(In millions of soms)
September 30, 2003 (actual)	1,968
December 31, 2003 (benchmark)	2,168
March 31, 2004 (performance criterion)	2,656
June 30, 2004 (indicative target)	1,827
September 30, 2004 (performance criterion)	1,926
December 31, 2004 (indicative target)	1,671

1/ End-of-period stocks.

2/ In the event the base value of September 30, 2003 is revised, the program targets will be revised by the same amount.

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

Ceiling on the cumulative fiscal deficit of the state government

13. The ceiling on the state government fiscal deficit is defined as the negative sum of: (i) the change in the stock of net claims of the domestic banking system and nonfinancial institutions—including state-owned enterprises and public companies—and households on the state government; (ii) the change in the stock of net claims of the foreign banking system and nonfinancial institutions and households on the state government; (iii) net privatization receipts; (iv) net foreign loans disbursed to the state government for budgetary support; (v) net foreign loans disbursed to the state government for project financing; and (vi) rescheduling of bilateral debt (principal and interest payments), following the Paris Club agreement. The fiscal balance will be measured at the program exchange rates, excluding valuation gains and losses on all foreign currency denominated assets and liabilities arising from exchange rate fluctuations. Thus defined, the cumulative fiscal deficit of the state government since October 2002 amounted to som 4,572 million as of September 30, 2003.

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

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

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

	(In millions of soms)
December 31, 2003 (benchmark)	835
March 31, 2004 (performance criterion)	2,052
June 30, 2004 (indicative target)	3,118
September 30, 2004 (performance criterion)	4,183
December 31, 2004 (indicative target) 3/	600

1/ Cumulative beginning from October 1, 2003.

2/ In the event the base value of September 30, 2003 is revised, the program targets will be revised by the same amount.

3/ Cumulative beginning from October 1, 2004.

Cumulative floor on state government tax collections in cash

16. Tax collections in cash correspond to the line “IV. Tax Receipts” in the Treasury Report and comprise the following categories: 1.0 taxes on income and profits; 4.0 taxes on property; 5.1 VAT on domestic and imported products; 5.1.1.0 retail sales tax; 5.2 excises on domestic and imported products; 5.4 specific taxes on services; 5.5 taxes on use of goods and services; 5.6 taxes on use of natural resources; 6.0 taxes on international trade; 7.0 other taxes. Thus defined, cumulative tax collections in cash since October 2002 amounted to som 11,442 million as of September 30, 2003. Cumulative tax collections in cash include collections of tax arrears but exclude tax offsets.

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

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

	(In millions of soms)
December 31, 2003 (benchmark)	3,398
March 31, 2004 (performance criterion)	5,845
June 30, 2004 (indicative target)	8,966
September 30, 2004 (performance criterion)	12,503
December 31, 2004 (indicative target) 2/	4,063

1/ Cumulative from October 1, 2003.

2/ Cumulative from October 1, 2004.

Ceiling on the stock of central government budget arrears

18. For the purposes of the program, central government budget arrears are defined as an overdue payment obligation of the Republican budget arising since the start of the three-year program period (October 1, 2001) and related to: (i) wages; (ii) Social Fund payroll contributions; (iii) mandatory transfers to the Social Fund; (iv) categorical grants; (v) payments of electricity bills; and (vi) allowances for poor families. A payment is defined to be overdue if it remains unpaid after its due date for (iii) and (iv); for 30 days after its due date for (i) and (ii); for 60 days after its due date for (v); and for 40 days after its due date for (vi). As of September 30, 2003, the stock of thus defined central government budgetary arrears was zero.

19. The program ceilings on the stock of central government budget arrears are reported in Table 6 below. No new arrears will be accumulated by the central government.

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

	(In millions of soms)
September 30, 2003 (actual)	0
December 31, 2003 (benchmark)	0
March 31, 2004 (performance criterion)	0
June 30, 2004 (indicative target)	0
September 30, 2004 (performance criterion)	0
December 31, 2004 (indicative target) 3/	0

1/ Cumulative from October 1, 2003.

2/ In the event the base value of September 30, 2003 is revised, the program targets will be revised by the same amount.

3/ Cumulative from October 1, 2004.

Ceiling on the stock of Social Fund pension arrears

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

21. The program ceilings on the stock of Social Fund pension arrears are reported in Table 7 below. No new pension arrears will be accumulated.

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

	(In millions of soms)
September 30, 2003 (actual)	0
December 31, 2003 (benchmark)	0
March 31, 2004 (performance criterion)	0
June 30, 2004 (indicative target)	0
September 30, 2004 (performance criterion)	0
December 31, 2004 (indicative target) 3/	0

1/ Cumulative from October 1, 2003.

2/ In the event the base value of September 30, 2003 is revised, the program targets will be revised by the same amount.

3/ Cumulative from October 1, 2004.

Floor on the Social Fund payroll tax collections in cash

22. Payroll tax collections in cash correspond to the total contributions collected by the Social Fund from both employers and employees for a given period. Thus defined, social fund payroll tax collections in cash since October 2002 amounted to som 3,602 million as of September 30, 2003.

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

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

	(In millions of soms)
December 31, 2003 (benchmark)	910
March 31, 2004 (performance criterion)	1,755
June 30, 2004 (indicative target)	2,657
September 30, 2004 (performance criterion)	3,703
December 31, 2004 (indicative target) 2/	1,081

1/ Cumulative from October 1, 2003.

2/ Cumulative from October 1, 2004.

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

24. Social Fund arrears to the Medical Insurance Fund are defined as overdue transfer obligations of the former to the latter as defined by law and refer to arrears incurred starting January 1, 2002. A transfer is defined to be overdue if the value date of any transfer obligation is more than 5 business days after the due date. Thus defined, total arrears of the Social Fund to the Medical Insurance Fund amounted to soms 10 million on September 30, 2003.

25. The program ceiling on the stock of Social Fund arrears to the Medical Insurance Fund are reported in Table 9 below. No new arrears will be accumulated to the Medical Insurance Fund.

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

	(In millions of soms)
September 30, 2003 (actual)	10
December 31, 2003 (benchmark)	0
March 31, 2004 (performance criterion)	0
June 30, 2004 (indicative target)	0
September 30, 2004 (performance criterion)	0
December 31, 2004 (indicative target) 3/	0

1/ Cumulative from October 1, 2003.

2/ In the event the base value of September 30, 2003 is revised, the program targets will be revised by the same amount.

3/ Cumulative from October 1, 2004.

Ceiling on the quasi-fiscal deficit of the electricity sector

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

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

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

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

where:

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

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

R is the total cash revenue;

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

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

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

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

27. For the purposes of the program, the marginal cost is equal to U.S. cents 2.3 per kilowatt hour, and normative losses (including own use) are defined as 15 percent of domestic supply. Total billing of end-users is defined as consumption times the posted nominal tariff. The cash collection component is the amount of bills paid in cash to the energy companies, and excludes any form of cash-to-cash settlements, off-sets, barter, or other non-cash payments. Thus defined, the QFD in the electricity sector amounted to som 9,024 million (or 12.0 percent of GDP) in 2002. The indicative ceiling on the quasi-fiscal deficit in the electricity sector is as follows (Table 10).

Table 10. Ceiling on Quasi-Fiscal Deficit in the Electricity Sector 1/ 2/

	(In millions of soms)
December 31, 2002 (actual)	9,024
December 31, 2003 (indicative target)	9,645
June 30, 2004 (indicative target)	4,900
December 31, 2004 (indicative target)	8,650

1/ Annual average.

2/ In the event the actual 2002 figure is revised, the 2003 and 2004 ceilings will be revised by the same amount.

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

28. In connection with the contracting or guaranteeing of external debt by the state government of the Kyrgyz Republic, the NBKR, or any other agency acting on behalf of the state government of the Kyrgyz Republic, 'debt' is understood to have the meaning set out in point 9 of the Guidelines on Performance Criteria with respect to External Debt in Fund arrangements (Decision No. 12274-00/85, dated August 24, 2000).⁹

⁹ Debt is understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including

(continued...)

29. External debt ceilings apply to (i) the contracting or guaranteeing of short term external debt (i.e. external debt with an original maturity of less than one year, except normal import-related credits and NBKR reserve liabilities); and to (ii) contracting or guaranteeing of nonconcessional medium- and long-term external debt (i.e., external debt with an original maturity of one year or more). Disbursements by the Fund from the PRGF Trust are excluded from the ceilings on external debt. Also excluded from these external debt ceilings is the contracting or guaranteeing of new external debt that constitutes a rescheduling or refinancing of existing external debt at terms more favorable to the debtor. The limit on the contracting or guaranteeing of short-term external debt is zero on a continuous basis throughout the period of the arrangement. The limit on the contracting or guaranteeing of medium- and long-term external debt is zero as specified in Table 2 of the MEP.

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

currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

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

Ceiling on new external payments arrears

31. For the purposes of the program, external payments arrears will consist of all debt-service obligations (i.e., payments of principal or interest) arising in respect of any debt contracted or guaranteed or assumed by the state government of the Kyrgyz Republic, or the NBKR, or any agency acting on behalf of the state government of the Kyrgyz Republic since the Kyrgyz Republic's independence, including, without limitations, unpaid penalties, interest charges or judicially awarded damages associated with these arrears owed by the state government of the Kyrgyz Republic, or the NBKR, or any agency acting on behalf of the state government of the Kyrgyz Republic, on imports received subsequent to independence. The ceiling on new external payments arrears shall apply on a continuous basis throughout the period of the arrangement. It shall not apply to external payments arrears arising from external debt being renegotiated with external creditors, including Paris Club creditors; and more specifically, to external payments arrears in respect of which a creditor has agreed that no payment needs to be made pending negotiations.

Ceiling on reserve money

32. For the purposes of the program, reserve money consists of currency issued by the NBKR and balances on commercial banks' correspondent accounts with the NBKR. The stock of reserve money amounted to som 8,672 million as of September 30, 2003. The indicative program limits are reported in Table 11 below.

Table 11. Ceilings on Reserve Money 1/

	(In millions of soms)
September 30, 2003 (actual)	8,672
December 31, 2003 (indicative target)	9,298
March 31, 2004 (indicative target)	9,566
June 30, 2004 (indicative target)	9,831
September 30, 2004 (indicative target)	10,069
December 31, 2004 (indicative target)	10,128

1/ End-of-period stocks.

II. REPORTING REQUIREMENTS UNDER THE PROGRAM

33. The government and the NBKR will provide the Fund with the necessary economic and financial statistical data to monitor economic developments and the quantitative targets. In particular, the government and the NBKR will provide the following specific information:¹⁰

The balance sheet of the NBKR

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

Monetary survey

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

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

¹⁰Any correction or revisions to the data previously reported should be clearly indicated and documented as to the reasons for revision.

International reserves and key financial indicators

37. The NBKR will provide detailed monthly data within 14 days from the end of the month on the composition of both its gross and net international reserves in convertible currencies and holdings of monetary gold. These data will be provided at two alternative sets of the exchange rates and the gold price: first, at those used to derive the NFA position in the NBKR accounts; second, at those specified in the program (Section I). In addition, weekly reports should be sent to the Fund every Monday on: (a) exchange rates (including the official and interbank exchange rates), foreign exchange interbank market turnover, and the volume of NBKR foreign exchange sales and purchases in the interbank market and with other parties; and (b) treasury bill yields and the amount of treasury bill sales and redemptions. On the 25th day of the month following the reference month, the NBKR will provide indicators of financial soundness of the banking system, including the ratios of regulatory capital to risk-weighted assets, non-performing loans to total loans, and return on equity, as well as data on bank deposit and lending rates by maturity.

Banking system data

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

External debt

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

Budgetary and extrabudgetary data

40. In addition to the monthly treasury report, the Ministry of Finance and the Social Fund will report monthly on all their recorded expenditure arrears, in particular on those defined above in this TMU. 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.

41. The State Energy Agency, in consultation with the Ministry of Finance and the World Bank, will submit to Fund staff in March and September 2004 their semi-annual report on the QFD in the electricity sector according to the format specified in Table 12 below.

Table 12. Kyrgyz Republic: Electricity Quasi-Fiscal Deficit

	Period
Production (GWh) 1/	
Losses (GWh)	
Loss Rate (in percent) 2/	
Consumption (GWh)	
Tariff (\$ct/kWh) 3/	
Cash Collection Rate (in percent)	
Effective Tariff (\$ct/kWh) 4/	
cash effect. rate	
total effect. rate	
Cost Recovery Tariff (\$ct/kWh) 5/	
Quasi-Fiscal Deficit	
in percent of GDP	
in \$ millions	
in millions of soms	

1/ Generation plus imports minus exports minus normative losses.

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

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

4/ Nominal tariff times cash collection rate

5/ Marginal costs, derived from marginal incremental capital cost.

Balance of payments data

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

Other general economic information

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

Table 13. Program Cross Exchange Rates

Currency Names		National Currency/US\$	US\$/National Currency
SDR		0.6984	1.4318
GBP	UK pound sterling	0.5903	1.6942
DKK	Danish krone	6.3095	0.1585
EUR	Euro	0.8491	1.1778
INR	Indian rupee	45.3200	0.0221
CAD	Canadian dollar	1.3064	0.7655
CNY	Chinese yuan	8.2768	0.1208
KRW	South Korean won	1,185.6000	0.0008
NOK	Norwegian krone	7.0024	0.1428
TRL	Turkish lira	1,489,255.3957	0.0000
SEK	Swedish krona	7.6810	0.1302
CHF	Swiss franc	1.3144	0.7608
JPY	Japanese yen	109.6752	0.0091
AZM	Azerbaijani manat	4,911.0115	0.0002
AMD	Armenian dram	557.1430	0.0018
BYR	Belarusian rubel	2,124.0150	0.0005
KZT	Kazakh tenge	148.1793	0.0067
LVL	Latvian lats	0.5560	1.7986
LTL	Lithuanian litas	2.9176	0.3427
MDL	Moldavian lei	13.3574	0.0749
RUR	Russian ruble	29.9176	0.0334
TJS	Tajik somoni	3.0640	0.3264
UZS	Uzbek sum	976.4458	0.0010
UAH	Ukrainian hryvnia	5.3320	0.1875
EEK	Estonian kroon	13.2854	0.0753
	Gold (\$/troy ounce)	384.60	

KYRGYZ REPUBLIC—FUND RELATIONS
(As of October 31, 2003)

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

II.	General Resources Account	SDR Million	Percent of Quota
	Quota	88.80	100.00
	Fund Holdings of Currency	88.80	100.00
	Reserve Position in Fund	0.00	0.01
III.	SDR Department	SDR Million	Percent of Allocation
	Holdings	5.48	N/A
IV.	Outstanding Purchases and Loans	SDR Million	Percent of Quota
	PRGF Arrangements	139.10	156.64

V. **Latest Financial Arrangements**

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	12/06/2001	12/05/2004	73.40	44.72
PRGF	06/26/1998	07/25/2001	73.38	44.69
ESAF	07/20/1994	03/31/1998	88.15	88.15

VI. **Projected Payments to Fund**
(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2003	2004	2005	2006	2007
Principal	3.23	21.74	20.87	18.61	16.12
Charges/Interest	0.35	0.63	0.52	0.42	0.33
Total	3.58	22.37	21.39	19.03	16.45

VII. Implementation of HIPC Initiative. Not Applicable.

VIII. Safeguards Assessments

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

IX. Exchange Rate Arrangements

The currency of the Kyrgyz Republic has been the som (100 tyiyn =1 som) since May 15, 1993. The Kyrgyz Republic's exchange regime is classified as a managed float with no pre-announced path for the exchange rate. The National Bank of Kyrgyz Republic publishes daily the exchange rate of the som in terms of the U.S. dollar, which is determined in the interbank foreign exchange market.

X. Article IV Consultations

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

XI. FSAP Participation and ROSC Assessment

The FSAP missions were held in May and September 2002, and the discussions were concluded during the 2002 Article IV consultation. A ROSC Fiscal Transparency mission was held in March 2001 and the ROSC Fiscal Transparency Module was published on March 13, 2002. A ROSC Data mission was held in November 2002 and the ROSC Data Module was published on November 10, 2003.

XII. Resident Representative

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

KYRGYZ REPUBLIC—RELATIONS WITH THE WORLD BANK GROUP
(As of December 2003)

1. On May 15, 2003, the World Bank Boards of Directors endorsed a Country Assistance Strategy (CAS) FY 03–06 for the World Bank Group based on the Kyrgyz Government's National Poverty Reduction Strategy Paper, which aims at assisting the authorities in capitalizing major reforms to date while maintaining a reform and growth course, which will both reduce poverty and enhance prospects for debt sustainability
2. **International Development Association (IDA).** Between 1992 and 2003, IDA has approved 27 projects totaling approximately \$649 million (after cancellations), of which about \$479 million has been disbursed. Six structural adjustment credits have already been completed, which provided quick disbursing support for the Government's economic reform programs in privatization, enterprise restructuring, agricultural policy, financial sector, public sector resource management and pension reform. Six investment operations have also been completed supporting reform and rehabilitation of the telecommunication sector, social safety nets, health, rural finance and livestock development.
3. The active portfolio includes 14 operations:
 - A balance of payments support operation (Consolidation Structural Adjustment Credit) assisting with reforms in the power and gas sector and improvements to the business environment (reducing the cost on business from licensing and inspections) is in place. The first tranche of the CSAC was disbursed at the end of 2000 and the second at the end of 2001. The third tranche disbursement was delayed due to slow progress in 2002 and beginning of 2003. However, a renewed commitment to implement the program was secured during the March 2003 supervision mission. Completion of the steps envisaged in the action plan and fulfillment of the third tranche conditions—which require further significant capacity and institution building efforts—will require time. Therefore, at the request of the Government the Closing Date of the credit was extended to December 31, 2004.
 - IDA is supporting the Government's efforts to strengthen the governance framework through a Governance Structural Adjustment Credit (GSAC) and accompanying Governance Technical Adjustment Credit (GTAC).
 - Two operations supporting energy sector rehabilitation and reform (Power and District Heating and a Technical Assistance Credit supported the CSAC program).
 - Six operations supporting provision of key public goods and reform in agriculture (irrigation rehabilitation, flood emergency, on-farm irrigation, rural finance, agricultural support services, and real estate and land registration—the latter also provides the basis for the introduction of a tax of non-movable property in rural and urban areas).

- An operation supporting capacity building in the financial sector and a line of credit for private enterprises.
- A second health sector operation continuing support for sectoral restructuring and the authorities' reform program.
- A rural water supply and sanitation operation (approved together with the CAS Progress Report).
- An urban transport operation.

4. The World Bank Group's operational objectives for the next 12 months are to support the ongoing structural reforms in energy, the business environment, the banking sector, public expenditure management, health, water and sanitation, and agriculture, and to enhance the portfolio performance. The World Bank will continue providing the Government with a strong level of Economic Sector Work and assisting it with capacity building. In this endeavor, the Bank has recently delivered Public Expenditure Review, Poverty Assessment, Financial Sector Assessment, Country Procurement Assessment, and Country Financial Accountability Assessment reports. The World Bank has also delivered a Governance Survey, a Mining Strategy Paper, and engaged in an active dialogue on energy, health and pension policies.

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

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

sector. IFC will work with IDA on a possible agricultural marketing and processing project, which could provide the basis and framework for collaboration in agricultural leasing. IFC will investigate opportunities for development of the IT sector. IFC will cooperate with IDA and the government in developing a legal and regulatory framework that will facilitate new foreign investment in mining in future years.

7. MIGA has supported private sector development in the Kyrgyz Republic by extending guarantees to foreign direct investments in four projects in the manufacturing, services, and mining sectors. Three are currently outstanding – two related to airport services at Manas airport and one related to the Kumtor gold mine. The total amount of foreign direct investment facilitated by MIGA guarantees is over \$360 million. MIGA has also provided capacity building in foreign investment techniques to the State Committee on Foreign Investments and Economic Development, under an initiative supported by the Swiss government. MIGA plans to continue to assist the development of the Kyrgyz Republic through its guarantee program and capacity building. Data on the Kyrgyz Republic are also featured in MIGA's Privatization Link service, which connects potential investors to information on companies slated for divestiture via the Internet.

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

1. Asian Development Bank (AsDB) operations in the Kyrgyz Republic commenced in 1994. To date, AsDB has approved 22 loans, all on concessional terms, totaling \$553.0 million, of which 12 loans with a net approved loan amount of \$273.5 million are on going. Lending for fast disbursing, policy based project has accounted for about a third of total lending. Besides loan operations, AsDB has extended technical assistance (TA) grants totaling about \$32 million since 1994. The TA operations follow the sharp sectoral focus of the Country Operational Strategy (COS) and complement the AsDB's loan operations. A high proportion of the TA assistance is for supporting the government's efforts for institution strengthening and capacity building, with a view to supporting sustainable economic development.
2. The ADB, in close consultation with the Government, developed the Country Strategy and Program (CSP) 2004–2006 for the Kyrgyz Republic. The CSP was approved by the ADB Board on 25 November 2003. The overall objective of the CSP is to reduce poverty. This will be addressed primarily by promoting private sector-led economic growth and selective support for human development. ADB will contribute to private sector-led growth by supporting the following areas: (i) agriculture and rural development to induce further productivity and to expand exports; (ii) the financial sector to strengthen the banking sector, improve depositor confidence, and deepen bank intermediation; and (iii) regional cooperation to reduce cross-border and transport and trade bottlenecks, stimulating overall economic growth and reducing poverty. Through these initiatives, ADB will assist the Government in meeting the target of the first Millennium Development Goal, i.e., halving income poverty levels. However, given the current constraints to external borrowing, the program envisages a reduced annual lending of only \$30 million during 2004–2006. During 1994–2001 ADB's average annual lending was around \$66 million. The lending program for 2004–2006 consists of six loans for a total amount of \$90 million. The lending program will be supported by non-lending assistance, including a technical assistance (TA) grant pipeline of about \$6.5 million. The non-lending program will include assistance to prepare investment projects as well as advisory and capacity building TA. The geographic focus of the CSP will be on the poorer areas of the country.
3. In 1997 the AsDB initiated support for enhanced subregional economic cooperation among the Central Asian republics and the western-most province of the People's Republic of China. In 1998, the AsDB approved a Private Sector Strategy for Central Asia. The thrust of the strategy is to complement the AsDB's public sector operations with various instruments, including nonguaranteed equity participation and loans to privately sponsored projects.
4. With the adoption in 1999 of poverty reduction as the AsDB's overarching objective, deliberate shifts are being made in the operational program to ensure more explicit support for projects that include beneficiaries living below the poverty line and for projects that will assist others to remain out of poverty.

**KYRGYZ REPUBLIC—RELATIONS WITH THE EUROPEAN BANK FOR
RECONSTRUCTION AND DEVELOPMENT (EBRD)**

(As of December 2003)

1. The EBRD objective is to facilitate transition to a market-based economy primarily through direct support to the private sector. Therefore, the EBRD sets special requirements such as commercialization of infrastructure services in terms of their expected impact on the country's systemic transition for any investments involving sovereign obligations.

2. According to the last EBRD country strategy, approved in October 2002, the Bank's main priorities in the Kyrgyz Republic are to (1) Promote a healthy micro and small and medium-sized enterprise (SME) sector, (2) Facilitate privatisation of the remaining major state enterprises, (3) Support the development of the financial sector, (4) Help attract investment to key natural resources projects, and (5) To help the government develop and improve transparency, governance and the investment climate through policy dialogue.

3. To date the EBRD has approved 21 projects for total value of US\$710 million, out of which the bank financed 26 percent and disbursed US\$186 million. Early repayment of Kumtor's senior debt in 2002 reduced the private sector ratio, but it is likely to increase again gradually towards the 70 percent target, particularly with the planned transactions in the banking sector and if privatisations move ahead.

4. The private sector projects include Kyrgyz Micro and Small Enterprises Financing Facility (KMSEFF) of US\$14.4 million, co-financed by the EBRD, IFC and Central Asia Risk Sharing Special Fund. As of October 2003 more than 1700 loans amounting to US\$3.3 million have been provided within the facility. Through the Direct Investment Facility (DIF), structured by the Bank specifically for providing equity and limited debt to particularly attractive private sector businesses, five projects (US\$2.6 million) were financed. The Trade Facilitation Programme (TFP) allowing local banks from our countries of operations to be active in trade finance, was launched by the EBRD in 1999. The total turnover of the programme in the Kyrgyz Republic to date reached US\$6.3 million. Other projects include the Kumtor gold mine, Hyatt-Regency Hotel, and equity investments in three banks (Demir International Kyrgyz Bank, Kyrgyz Investment Credit Bank, and Inexim Bank).

5. Four projects are in the public sector, with one project aimed at the modernization of the telecommunications network, two projects focusing on upgrading components of the electricity transmission network, and one project in the agribusiness sector. The total commitment of these projects is 43 percent of the total amount.

6. In terms of sectoral allocation, 22 percent of commitments are in natural resources, 36 percent in power and energy, 21 percent in the financial sector and 20 percent in general and specialized industries.

7. The progress made with these investments was partly a result of the EBRD's fully granted technical cooperation programme, which has been targeted at the financial sector, natural resources, agribusiness and critical infrastructure bottlenecks (such as the modernization of telecommunications, and electricity transmission and distribution). Considerable technical assistance has also been provided to the Kyrgyz Republic (totalling some EUR 14.6 million), including through the TurnAround Management (TAM) programme.

**Kyrgyz Republic—Technical Assistance Provided by the Fund,
December 2001–November 2003
(As of November 30, 2003)**

Dept.	Subject/Identified Need	Timing	Counterpart
FAD	Tax Policy and Administration	January 28–February 9, 2002	Ministry of Finance
	Treasury Reform and Expenditure Management	February 11–27, 2002	Ministry of Finance
	Improving the Effectiveness of the Large Taxpayer Unit	February 24–March 7, 2003	Ministry of Finance
	Treasury Management Information System	July 21–29, 2003	Ministry of Finance
	VAT on agriculture	November 3–11, 2003	Ministry of Finance
MFD	Payment Systems	March 21–April 8, 2002	National Bank of the Kyrgyz Republic
	Regularization of Financial Relations between the NBKR and the Ministry of Finance	April 23–May 3, 2002; October 31–November 8, 2002; and February 27–March 6, 2003	National Bank of the Kyrgyz Republic
	Financial Sector Assessment Program (in cooperation with the World Bank)	May 5–18, 2002; August 26–September 9, 2002; and October 29–November 6, 2002	National Bank of the Kyrgyz Republic
	Review of the Capital Adequacy and Dividend Arrangements for the NBKR	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
LEG	Bank Insolvency Law	July 4–12, 2002	National Bank of the Kyrgyz Republic
STA	ROSC Data Assessment	Nov. 5–21, 2002	National Statistical Committee

List of Resident Advisors

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

KYRGYZ REPUBLIC—STATISTICAL ISSUES

General framework

1. The three institutions responsible for collecting, compiling and disseminating macroeconomic statistics have legal and institutional environments that support statistical quality and the respective staffs are well-versed in current methodologies. Unlike staff resources, however, computer and financial resources are not in general commensurate with current needs and constrain future statistical development, especially for the National Statistical Committee (NSC).
2. The NSC maintains a comprehensive and regularly updated data web site largely incorporating international methodological recommendations, with adequate coverage and timeliness (<http://stat-gvc.bishkek.su>). The Kyrgyz Republic participates in the Fund's General Data Dissemination System (GDSD); its dissemination practices exceed GDSD recommendations and meet 12 of the 21 SDDS requirements.
3. A data ROSC mission in November 2002 assessed the Kyrgyz Republic's data dissemination practices against the GDSD and undertook an in-depth assessment of the quality of national accounts, price, government finance, monetary, and balance of payments statistics. The mission concluded that the quality of the Kyrgyz Republic's macroeconomic statistics had improved significantly in the last few years. The authorities had established a good track record of implementing recommendations of past technical assistance missions in the area of statistics and had demonstrated commitment to pursue plans and programs to further improve their statistics. The mission recommended that a program of regular intersectoral consistency checks be introduced to reduce the sometimes significant unexplained discrepancies between the government finance, monetary, and balance of payments datasets. The authorities' response to the data module ROSC (posted on the IMF website (www.imf.org/external/np/rosc)) includes an update on the status of implementation of the ROSC mission's recommendations.

National accounts

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

Prices, wages, and employment

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

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

7. 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 quality of data processing by customs has suffered due to the use of an outdated computer software system.

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

Fiscal accounts

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

10. The provision of data on 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 and timeliness of external debt data are adequate. The External Debt Division of the Ministry of Finance is now solely responsible for monitoring external debt, and this division has benefited from on-site training provided by a Swiss-financed long-term consultant and from the computerization of its database.

Monetary sector

11. The authorities introduced new charts of accounts for the NBKR and the commercial banks during 1997, with the assistance of a resident MAE advisor and USAID. A monetary and financial statistics mission in March 1999 reviewed the compilation of the monetary data and found that the classification of accounts accords with most international best practices, but some areas for improvement remain. In particular, the NBKR's chart of accounts is not sufficiently detailed to support the sectoral breakdown of the monetary statistics and there is a need to improve not only the chart of accounts but also the accompanying instructions.

12. The main findings of the November 2002 ROSC mission were that: (1) the residency criterion was not uniformly applied, as the currency denomination was used to classify some transactions with foreign and domestic units, (2) deposits with banks in liquidation were included in broad money, and (3) source data did not provide sufficient information for a more detailed sectoral breakdown (e.g., subsectorization of nonbanks institutions as recommended in the *Monetary and Financial Statistics Manual*). The mission observed that the use of a residency criterion deviating from international best practices, with the implied risk of misclassification (and, in turn, the over- or under-estimation of the financial system's foreign assets and liabilities), carried over to other macroeconomic datasets (government finance and balance of payments).

13. Monthly monetary data for *IFS* publication are reported on a regular and timely basis. Since December 2002, monetary data are reported electronically to STA.

External sector

14. Data on the balance of payments and international investment position are compiled and disseminated on a quarterly basis. The compilation of balance of payments (BOP) statistics has improved with the assistance of a 1999 technical assistance mission on BOP statistics. The 2002 data ROSC mission noted that the compilation of BOP statistics broadly follows the *Balance of Payments Manual, Fifth Edition (BPM5)*. The NBKR has good arrangements with other agencies to ensure the timely flow of data. However, because of legal issues related to secrecy provisions high value transactions cannot be verified with respondents, which limit the ability to cross-check the accuracy of data. Although the data collection program has been expanded in the recent past, coverage deficiencies remain with respect to trade, services, and foreign direct investment. The NBKR enterprise surveys lack an up-to-date register and have inadequate coverage of enterprises, particularly those in free economic zones. There is also a need to improve compilation procedures for achieving temporal consistency of data, and investigating and reconciling discrepancies.

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

KYRGYZ REPUBLIC—CORE STATISTICAL INDICATORS
(As of November 28, 2003)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve Money	Broad Money	Interest Rates	Consumer Price Index	Exports/Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/Debt Service
Date of Latest Observation	11/27/03	11/27/03	11/27/03	11/27/03	10/30/03	11/11/03	Oct/03	Q3/03	Q3/03	Oct/03	Oct/03	Oct/03
Date Received	11/28/03	11/28/03	11/28/03	11/28/03	11/15/03	11/28/03	11/10/03	11/15/03	11/15/03	11/26/03	11/12/03	11/19/03
Frequency of Data	D	D	D	D	M	W	M	Q	Q	M	M	M
Frequency of Reporting	D	D	D	D	M	W	M	Q	Q	M	M	M
Source of Update	A	A	A	A	A	A	A	A	A	A	A	A
Mode of Reporting	E	E	E	E	E	E	E	E	E	C	E	C
Confidentiality	C	A	A	A	C	C	C	C	C	C	C	C
Frequency of Publication	W	M	M	M	M	W	M	Q	Q	M	M	Y

Explanation of abbreviations:
 Frequency of data, reporting and publication: D-daily, W-weekly, M-monthly, Q-quarterly, Y-yearly in conjunction with staff visits.
 Source of data: A-direct reporting by National Bank, Ministry of Finance, Ministry of Statistics and Analysis or other official agency.
 Mode of reporting: C-cable or facsimile; E-electronic news reporting; F-floppy provided. Most data are provided to the Resident Representative's office and then forwarded to headquarters.
 Confidentiality: A for use by the staff only; C-unrestricted use.