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International Monetary Fund
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IMF Executive Board Approves US$100 Million Exogenous Shocks Facility Arrangement for the Kyrgyz Republic

The Executive Board of the International Monetary Fund (IMF) has approved an 18-month, SDR 66.6 million (about US$100 million) arrangement under the Exogenous Shocks Facility (ESF) for the Kyrgyz Republic, to support the authorities in addressing several exogenous shocks, including the rise in commodity prices until mid-2008, a shortfall in hydropower, banking sector difficulties in neighboring Kazakhstan, and an earthquake in the Nura region.

The Executive Board's decision will enable the Kyrgyz Republic to draw an amount equivalent to SDR 16.65 million (about US$25 million) from the IMF immediately.

In September 2008, the Executive Board approved modifications to the ESF which provided for faster and higher access, made the facility easier to use, and enhanced its flexibility. These modifications took effect in late November following the receipt of all the necessary legal consents.

Following the Executive Board's discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"The Kyrgyz economy has been adversely affected since late 2007 by several exogenous shocks that threaten to undermine macroeconomic stability, erode the gains made in poverty reduction, and create balance of payments difficulties. International food and fuel prices rose sharply until mid-2008, while low water levels are causing hydro-electric power shortages that necessitate an increase in imports of fuel and electricity. As a result, inflation has surged and the current account deficit has widened. Weakening global and regional growth in the wake of the international financial crisis, and spillovers from banking sector difficulties in neighboring countries that have reduced credit expansion in the Kyrgyz Republic, have led to a slowdown in the pace of economic growth.

“The Kyrgyz authorities have adopted an economic program to address the consequences of these shocks. The program, which will be supported by an arrangement with the IMF under its Exogenous Shocks Facility, aims to reduce inflation, maintain an adequate level of foreign exchange reserves, sustain economic growth, and provide targeted protection to the poor.

“The program emphasizes the maintenance of cautious monetary and fiscal policies and greater exchange rate flexibility. Fiscal discipline will be maintained through cuts in non-priority spending, tight control over the public sector wage bill, and a strengthening of public financial management. The banking system has been resilient so far to the global and regional financial shocks. The central bank will continue to monitor financial developments closely in order to assess vulnerabilities and mitigate risks, while strengthening banking supervision and regulation,” Mr. Portugal said.

Recent Economic Developments

Sound economic policies in the Kyrgyz Republic have contributed to strong economic performance. Economic growth accelerated to over 8 percent in 2007. Excluding gold production, it reached almost 9 percent. Inflation remained low until late 2007. Fiscal performance was also impressive, with revenues rising sharply. With firm fiscal policies, and aided by the economic recovery, a gradual appreciation of the som, and Paris Club support, the country was able to achieve a major improvement in debt indicators. Living standards improved as well and poverty rates fell from 54 percent in 2002 to 35 percent in 2007, while extreme poverty dropped from 23 percent to 7 percent.

However, since late 2007, the Kyrgyz economy has been hit by a number of exogenous and largely temporary shocks. International commodity prices continued to rise through much of 2008, resulting in a surge in inflation and a widening current account deficit. A major shortfall in domestic hydro-power capacity due to low water levels is causing power shortages and necessitates the import of larger volumes of fuel and electricity, increasing the current account deficit further. Global and regional economic growth continues to fall in the wake of the international financial crisis and the Kyrgyz Republic's exports and inflows of workers remittances are expected to weaken, leading to a further widening of the current account deficit in 2009, despite the recent decline in commodity prices. Spillovers from banking sector difficulties in Kazakhstan have resulted in a sharp slowdown in credit expansion in the Kyrgyz Republic. As a result of the combined shocks, the pace of economic growth in the Kyrgyz Republic is slowing down as well this year and is expected to slow further in 2009.

Program Summary

The authorities' economic program for 2008–09 addresses the consequences of the exogenous shocks and aims to manage the effects on the Kyrgyz economy of the slowdown in regional growth and spillovers from the global financial crisis. The program's objectives are to reduce inflation, sustain economic growth, and protect the poor.

The program relies mainly on macroeconomic policies to achieve its goals, with policies continuing to walk a fine line between further reducing inflation and supporting growth. Monetary policy has been tightened substantially, reflected in a sharp increase in interest rates this summer, and aims to bring down inflation to close to 10 percent by end-2009. But as inflation falls, monetary policy could be eased gradually to aid the slowing economy. Fiscal policy will similarly aim to balance the need to help reduce inflation with the need to support growth and provide targeted protection to the poor. The program also includes a number of structural measures to support these policies, focusing on strengthening economic management. The authorities' economic program will support implementation of their Country Development Strategy (CDS).

Kyrgyz Republic: Selected Economic Indicators, 2005–09

	2005	2006	2007 Prel.	2008 Proj.	2009 Proj.
Real sector					
Nominal GDP (in millions of soms)	100.9	113.8	139.7	175.8	202.4
Nominal GDP (in millions of US$)	2,460	2,837	3,748	4,805	5,124
Real GDP (growth in percent)	-0.2	3.1	8.2	7.5	3.7
Non-gold real GDP (growth in percent)	1.4	5.7	8.7	5.0	3.0
GDP per capita (in U.S. dollars)	478	546	713	906	956
Consumer prices (12-m percent change, eop)	4.9	5.1	20.1	19.8	11.0
Consumer prices (12-m percent change, ave)	4.3	5.6	10.2	24.5	11.9
General government finances (in percent of GDP) 1/					
Total revenue and grants	24.7	26.4	30.8	31.7	28.5
Total expenditure and net lending	28.1	28.9	31.5	33.1	30.2
Overall fiscal balance (below-the-line)	-3.6	-2.1	-0.3	-1.3	-1.7
Primary balance	-2.0	-1.2	0.3	-0.5	-0.9
Total public debt	85.9	72.5	57.7	52.2	47.2
Banking sector 2/					
Reserve money (percent change, eop)	24.9	47.4	38.5	17.6	15.0
Broad money (percent change, eop)	9.9	51.6	33.3	19.0	17.0
Credit to private sector (percent change, eop)	20.5	48.6	79.7	25.6	21.1
Interest rate 3/	4.3	4.2	5.6	18.7	...
External Sector					
Current account balance (in percent of GDP)	2.8	-3.1	-0.2	-6.4	-8.5
Export of goods and services (in millions of US$)	1,053	1,485	2,244	3,138	3,037
Export growth (percent change)	2.9	40.9	51.1	39.9	-3.2
Import of goods and services (in millions of US$)	1,397	2,253	3,218	4,580	4,572
Import growth (percent change)	23.9	61.3	42.8	42.3	-0.2
Gross official reserves (in million of US$) 4/	608	814	1,194	1,162	1,260
Gross reserves (months of next year imports, eop)	3.2	3.0	3.1	3.0	3.0
External public debt (in percent of GDP)	78.0	69.8	55.5	44.4	43.8
Exchange rate					
Exchange rate (soms per US$, average)	41.0	40.1	37.3	...	...
Real effective exchange rate (2000=100, average)	104.3	106.0	113.6	...	...

Sources: Kyrgyz authorities; and Fund staff estimates and projections.
1/ General government comprises state government and Social Fund finances. State government comprises central and local governments.
2/ At actual exchange rates for 2005–07; projections at program exchange rates (including Som 38.21 per 1 US$) for 2008–09.
3/ Interest rate on 3-month treasury bills. Latest observation for 2008 as of end-November.
4/ Gross reserves exclude international reserves of the NBKR that are pledged or blocked.