FOR AGENDA

EBS/10/164

August 30, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Kyrgyz Republic—Request for Disbursement Under the Rapid Credit Facility**

Attached for consideration by the Executive Directors is a paper on the request for disbursement under the Rapid Credit Facility for the Kyrgyz Republic, which is tentatively scheduled for discussion on **Wednesday, September 15, 2010**. A draft decision appears on page 19. Unless an objection from the authorities of the Kyrgyz Republic is received prior to the conclusion of the Board's consideration, the document will be published. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Mr. Ilahi (ext. 36689) and Mr. Amaglobeli (ext. 35696) 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 Wednesday, September 8, 2010; 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, together with a supplement providing an informational annex, will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. The supplement, which is not being distributed in hard copy, will also be available in the Institutional Repository; a link can be found in the daily list (http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

Request for Disbursement under the Rapid Credit Facility (RCF)

Prepared by the Staff Representatives for the Kyrgyz Republic

Approved by David Owen and Thomas Dorsey

August 26, 2010

Background: Political and ethnic turmoil over the last few months has seriously affected the economic outlook and given rise to budget and balance of payments needs. Staffs from the IMF, AsDB and the World Bank co-led joint donor economic assessment missions of International Financial Institutions in May and July 2010. The results were presented at a donor conference in Bishkek on July 27, 2010, in which Fund staff also participated. The donors pledged US$1.1 billion over a 30 month period for reconstruction, rehabilitation and resettlement, particularly in the south.

Program issues: The authorities are requesting assistance under the Rapid Credit Facility (RCF) in the amount of SDR 22.2 million (25 percent of quota). The Fund RCF would be catalytic in garnering donor support. The new authorities' policies are focused on a large donor-financed fiscal expansion to address urgent social and reconstruction needs and limit the economic downturn, actions to restore banking sector stability, and governance measures. An18-month arrangement under the Exogenous Shocks Facility in the amount of SDR 66.6 million (75 percent of quota) was approved on December 10, 2008, and expired on June 9, 2010 without completion of the second and third reviews. Only half of the resources were disbursed under this program.

Mission: The staff team that visited Bishkek during July 27–August 7, 2010 comprised Mr. Ilahi (head), Mr. Amaglobeli, Ms. Samadova (all MCD), and Mr. Kalonji (SPR), and Mr. Gvenetadze (Resident Representative). The mission met with President Otunbayeva, First Vice Prime Minister Muraliev, Finance Minister Imashev, Acting NBKR Governor Jeenbaeva, Minister of Economic Regulation Umetaliev, and donor representatives**.**

Exchange rate regime: The exchange rate regime is classified as an "other managed arrangement." Kyrgyz Republic has accepted obligations under Article VIII, sections 2, 3 and 4, and maintains an exchange system free of restrictions on payments and transfers for current international transactions.

Statistics: Economic data are broadly adequate for surveillance and country monitoring. The Kyrgyz Republic subscribes to the SDDS.

Publication: The authorities have consented to the publication of the Staff Report, Letter of Intent, and Memorandum of Economic and Financial Policies.

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I. CONTEXT

1. **Popular protests in April 2010 led to the removal of the President and formation of an interim government.** The political demonstrations against the previous government rose out of allegations of authoritarianism, corruption and taking social policy decisions without adequate public consultation. The interim government that took over comprised members of opposition political parties and civic leaders. The events led to loss of life and injuries to persons and destruction of private and public property.

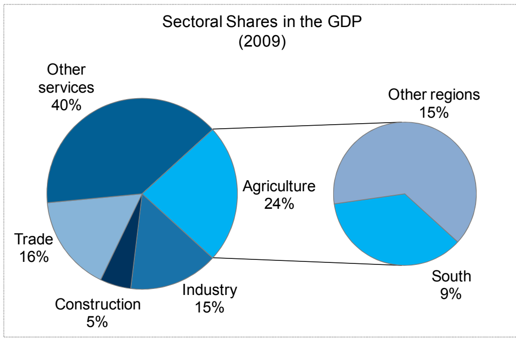
2. **There has been no major security incident since the intense flare up in ethnic violence in the south in mid-June 2010, but the situation remains tense.** The June 2010 events led to heavy casualties and loss of life, significant population displacement—though many refugees and internally displaced persons (IDPs) are now returning—and substantial economic damage. Interethnic relations remain fragile; though the state of emergency in the south was lifted in early August, 2010.

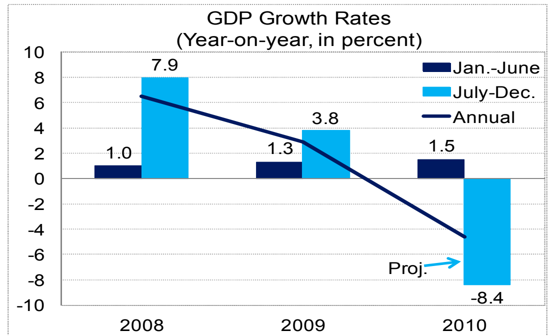
3. **The transition to a representative political government appears on course.** Voters in the late June 2010 referendum approved a new constitution and chose Ms. Roza Otunbayeva as president for an 18-month period. Parliamentary elections are scheduled for October 10, 2010. A caretaker administration took office in mid-July, 2010; the caretaker officials will not contest the next election.

II. RECENT DEVELOPMENTS AND 2010 OUTLOOK: DEEP IMPACT OF THE CRISIS

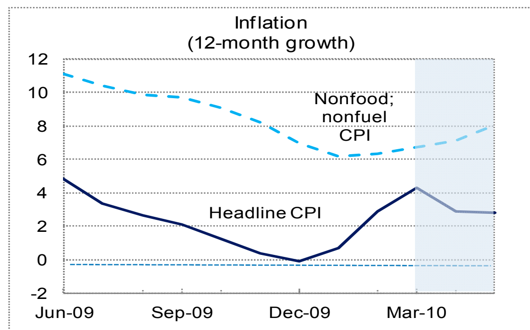
4. **Growth**. The nongold economy will likely contract by 4½ percent in 2010, after registering mild growth of 3 percent in 2009. This is mainly the result of serious disruption in agriculture and damage to infrastructure following the June events in the south (which accounts for about one-quarter of GDP), and the adverse impact on trade and services stemming from lack of security and border closures.[1] With gold production continuing to be strong, the overall economy is expected to contract by somewhat less—about 3½ percent. The political and ethnic turmoil has taken a heavy toll on the economy—which had registered 16 percent growth in the January-March period (y-o-y basis)—and the outlook for this year has been revised down by 8 percentage points from the pre-April projection of 4½ percent.

[1] Of the 13 customs checkpoints with Kazakhstan, 9 remain closed as of mid-August. All other borders officially remain open.

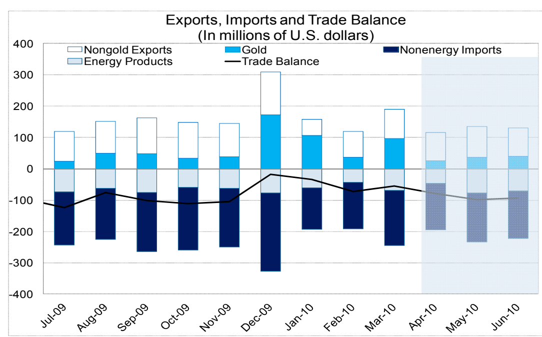




5. **Inflation**. Overall inflation rose to 6½ percent in Q1 (year-on-year basis) as the economy had begun to recover. Underlying inflation (excluding food and fuel) is now expected to moderate as the full economic effect of the events in the south takes hold and the economy begins to shrink. The imposition of petroleum export duty by Russia—which has effectively raised domestic fuel prices by about one third—and rising international wheat prices will add to headline inflation, which is expected to be in the 7–8 percent range by year end.[2]



6. **Current account**. Exporters of goods and services are unlikely to fully benefit from an improving external environment—recovery in Russia and Kazakhstan—mainly because of internal insecurity (and the related impact on agricultural activity, internal trade, and tourism) and border closures. At the same time, investments in the gold sector and donor-financed spending will continue to boost imports. While a robust recovery in remittances should help moderate external pressures, the current account deficit excluding grants is expected to widen to 6¾ percent of GDP from 2½ percent in 2009. Taking account of the proposed Fund disbursement and committed donor support, import cover of international reserves is nonetheless projected to drop from 4.6 months in 2009 to 4.1 months in 2010, which is in the low-moderate range given the relative openness of the Kyrgyz economy and the volatility of external inflows.



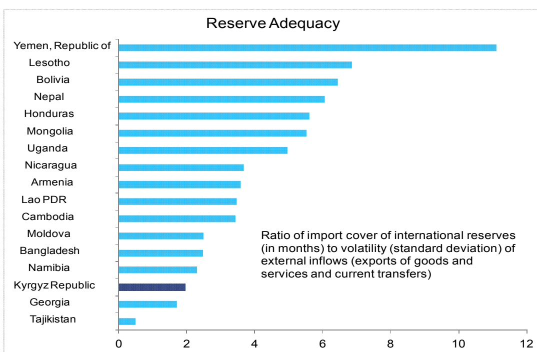
[2] Russia accounts for more than 90 percent of Kyrgyz petroleum imports. Prior to the imposition of export duty, Russia was exporting fuel to the Kyrgyz Republic at lower than international prices.

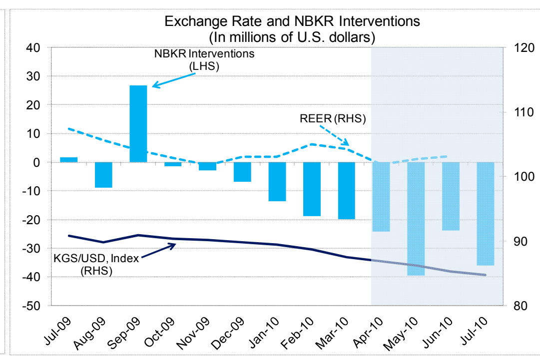
Text table 1. Kyrgyz Republic: Summary Balance of Payments, 2008–11
(In millions of U.S. dollars, unless otherwise indicated)

	2008	2009	2010	2011
	Actual	Prel.	Proj.	Proj.
Current account balance	-413	95	-239	-444
Of which: exports of goods and services	3,037	2,821	2,874	3,349
Of which: imports of goods and services	4,747	3,680	4,128	4,988
Of which : private transfers	1,431	1,013	1,220	1,335
Capital and financial account	513	200	121	371
Of which : net FDI and portfolio investment	240	169	175	105
Of which : medium- and long-term loans (net)	34	283	108	77
Of which : net short term flows including errors and omissions	242	-291	-151	0
Financing	-100	-295	118	73
Gross international reserves (-increase)	-121	-293	-114	-130
Net use of Fund resources	18	-2	-21	-23
Financing gap	3	0	253	225
Memorandum items:				
Current account balance (percent of GDP)	-8.1	2.1	-5.4	-9.3
Current account balance excl. official transfers (percent of GDP)	-8.9	-2.4	-6.8	-9.9
Gross international reserves (end of period)	1,222	1,584	1,697	1,827
(in months of next year GNFS imports)	4.0	4.6	4.1	4.0

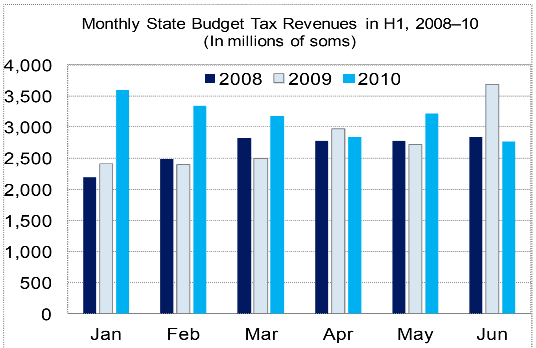
Sources: Kyrgyz authorities; and Fund staff estimates and projections.

7. **Exchange market pressures** have increased following the crisis and are likely to continue, largely because of crisis-related and critical imports, though speculative or confidence pressures on the som have not been observed so far. The central bank has increased interventions, and international reserves have fallen by 4 percent since the start of the crisis in April, while the som-dollar exchange rate has depreciated by 3 percent. The real exchange rate depreciation has slowed as the decline in inflation has moderated since mid-2009.

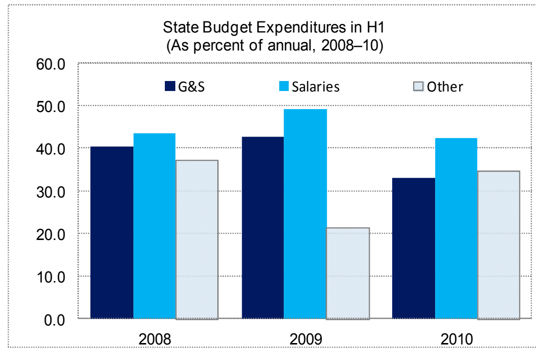




8. The **fiscal** deficit has been restrained through H1, but is likely to increase sharply in the remainder of the year. Fiscal revenue performance has held up well despite the crisis, largely as a result of strong gold-related tax receipts—both from higher prices and output—and continued emphasis on tax administration. While the authorities have generally avoided using tax breaks as a crisis response, they have provided relief to businesses in the south till 2012; the impact of these measures on tax collection is likely to be small as the south has a small share of national tax receipts. Expenditures have been relatively low in H1 because of seasonal factors as well as restraints on procurement of goods and services. In H2, the fiscal deficit will see a significant expansion largely because of the need to increase crisis-related spending (see section III).

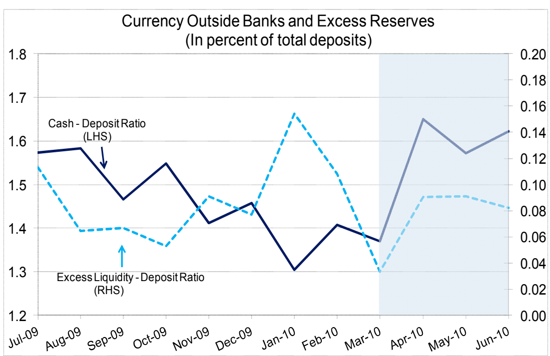


Monthly State Budget Tax Revenues in H1, 2008–10
(In millions of soms)

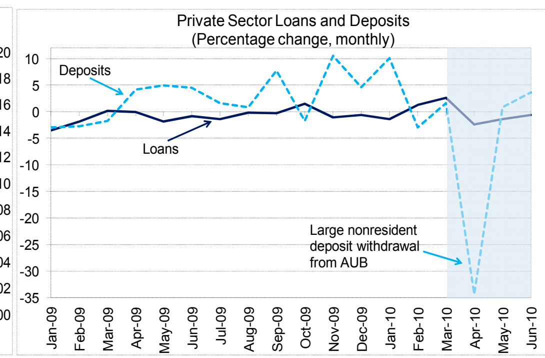


State Budget Expenditures in H1
(As percent of annual, 2008–10)

9. **Monetization and credit** have been adversely affected by the crisis. Cash holdings have increased sharply, which in turn has affected the money multiplier. In response to the crisis, the central bank eased monetary conditions by lowering the reserve requirement by 1½ percentage points, to 8 percent (in May 2010) and reducing the sale of notes. While credit had begun to recover prior to April, it is now likely to contract in real terms this year, because of weak demand but also banking troubles (see below).

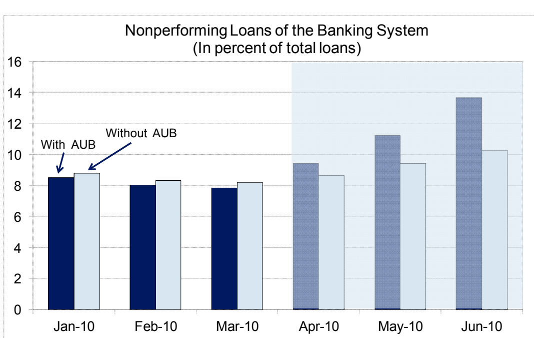


Currency Outside Banks and Excess Reserves
(In percent of total deposits)

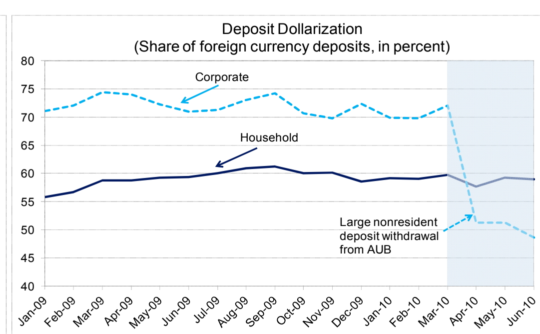


Private Sector Loans and Deposits
(Percentage change, monthly)

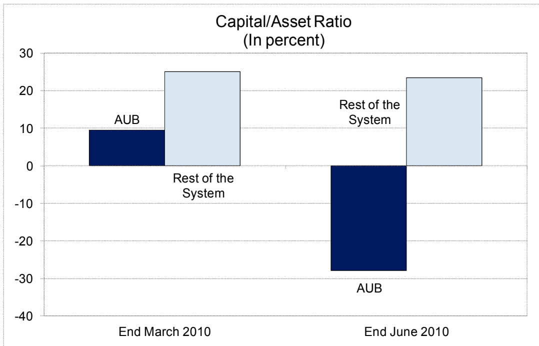
10. The **financial system** has been deeply affected by the crisis, primarily through the impact on the systemically important Asia Universal Bank (AUB, see Box 1). While AUB has had severe solvency problems, the rest of the system appears adequately capitalized (though capital adequacy could be overstated because of possible under provisioning of unrecoverable loans). Nonperforming loans are rising sharply but largely as a result of loan quality deterioration at AUB, because of its exposure to the south. There has been no generalized deposit run despite the uncertainties surrounding the banking sector.

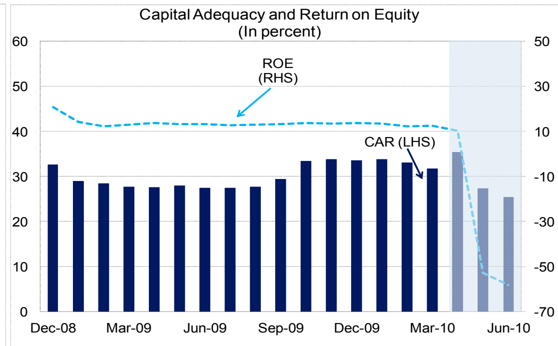


Nonperforming Loans of the Banking System
(In percent of total loans)



Deposit Dollarization
(Share of foreign currency deposits, in percent)





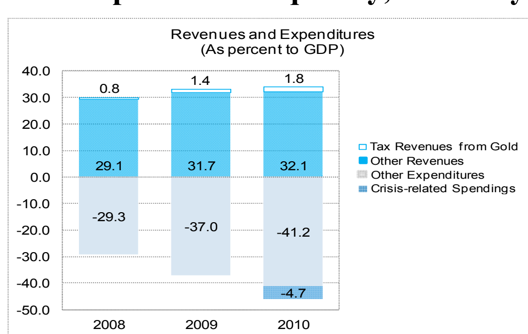
11. **Governance**. The current authorities are keen to address governance issues, especially because of the sensitivity about the alleged corruption and improprieties of the previous regime. The new constitution has reduced the powers of the President, in favor of the Prime Minister. The Central Agency for Development Investments and Innovations, which concentrated policy decision making under the previous President's son, has been disbanded and the Development Fund (KRDF) is being liquidated and most of its assets—largely comprising saved bilateral assistance received from Russia in 2009—have been transferred to the central government accounts at the National Bank of the Kyrgyz Republic (NBKR). Many assets, including those that had been hastily and nontransparently privatized by the previous regime, have been nationalized and are awaiting privatization through a transparent and open bidding process.

III. Policy Discussions: Responding to the Crisis While Maintaining Macroeconomic Stability

The new authorities' policy priorities are immediate, entailing a large donor-financed fiscal expansion to address urgent social and reconstruction needs and limit the economic downturn, actions to restore banking sector stability, and governance measures to demonstrate a decisive break with the previous allegedly corrupt regime. Discussions focused mainly on the limits of crisis-related fiscal expansion in light of external financing constraints, the appropriate monetary and exchange rate policy response, near- and medium-term challenges to fiscal and debt sustainability, and financial stability concerns.

A. Fiscal Policy

12. **Despite the crisis, tax revenues are expected to perform adequately, with only a modest decline in the tax-GDP ratio.** While economic contraction will lower tax collection from nongold activities, higher output and international prices of gold will mitigate the impact of the crisis on taxes. The tax breaks for the south are expected to have minimal impact on collection, largely because the



conflict-affected areas have only a small share in tax collection, and tax breaks have not been employed elsewhere. The authorities argued that the need to preserve inter-ethnic equality—most of the businesses benefitting from the tax break in the south belong to the Uzbek minority—would not allow them to raise tax rates elsewhere this year. Taxes are expected to hold up in H2 because of higher VAT and excise revenues collected on fuel imports from Russia, exchange rate depreciation (40 percent of tax revenues are collected by customs) and some administrative measures (see MEFP ¶7).

Text table 2. Kyrgyz Republic: General Government Budget, 2008–11
(In percent of GDP)

	2008	2009	2010	2011
	Act.	Act.	Proj.	Proj.
Total revenue and grants	29.9	33.0	33.9	30.3
Total revenue	28.0	27.7	28.6	28.4
Tax revenue	23.0	22.7	22.4	22.8
Non-tax revenue	4.3	4.6	5.8	5.2
Capital revenue	0.7	0.3	0.4	0.4
Grants	1.9	5.3	5.3	1.9
Total expenditures and net lending	29.3	37.0	45.9	38.8
Current expenditures	24.8	29.1	35.4	30.8
Capital expenditures	4.2	7.5	9.6	8.0
Net lending	0.3	0.5	1.0	0.0
Discrepancy	-0.6	0.2	0.0	0.0
Balance	0.0	-3.7	-12.0	-8.5
Primary balance excluding grants	-1.1	-8.2	-16.2	-9.6
Financing	0.0	3.7	12.0	8.5
External	0.4	7.6	6.9	6.4
Domestic (incl. privatization)	-0.4	-1.5	2.5	2.1
Use of KRDF investments abroad		-2.4	2.5	0.0

Sources: Kyrgyz authorities; and Fund staff estimates.

13. **Crisis-related needs will result in a significant increase in spending.** The authorities face largely unavoidable pressures to increase expenditures on refugee and IDPs resettlement, rehabilitation, internal security, social protection and elections, construction of housing in the south, and AUB restructuring, all amounting to about 4¾ percentage points of GDP. The authorities will ensure that spending—particularly that for the south—is consistent with absorptive capacity by delaying some spending till 2011, if needed.

Text table 3. Kyrgyz Republic: Major Crisis Related Expenditure Measures in the 2010 Revised Budget

	Million soms	Percent of GDP
Salary increases (law-enforcement agencies and other)	1,480.0	0.7
One-off payments for the victims of April events	220.0	0.1
Security related expenditures	284.0	0.1
Rehabilitation of government offices damaged during April events	518.0	0.3
Elections related expenditures	399.9	0.2
Rehabilitation costs in the South (private housing and public infrastructure)	3,630.0	1.8
Compensations for the victims of the June events in the South	970.0	0.5
Social infrastructure projects throughtout the country	630.0	0.3
Commercial bank recapitalization 1/	1,500.0	0.7
TOTAL	**9,631.9**	**4.7**

Source: Kyrgyz authorities; and Fund staff estimates.

1/ In addition to recapitalization, there maybe a loss of deposits in the amount of 0.5 billion soms (0.3 percent of GDP).

14. **The fiscal deficit will increase significantly in 2010.** The primary nongrant fiscal deficit is expected to rise to 16.2 percent in 2010, from 8.2 percent in 2009—a significant upward revision from the pre-crisis 2010 deficit estimate of 9.9 percent of GDP. As mentioned above, 4¾ percentage points of the increase in deficit from 2009 is from higher crisis-related spending. The remainder comprises in large part lower taxes (0.3 percentage points of GDP) and higher pension spending (2.6 percentage points)—comprising an inflation "catch-up" of benefits announces last year, and compensation for the now reversed electricity tariff increase (on the latter, the authorities are reluctant to go back on a prior government commitment on a social benefit measure at a time of economic stress and political difficulty).[3]

15. **And external indebtness will also rise.** For the remainder of the year the authorities intend to utilize about US$165 million of their own saved resources (3.7 percent of GDP), leaving US$253 million to be covered by external budget support. External financing is smaller than the US$335 million gap envisaged in the Joint Economic Assessment (JEA) report, issued prior to the donor conference in July, because of a shortfall in donor budget support commitments. [4] The authorities decided to lower noncrisis related capital spending on various small capital projects accordingly, in order to limit the overall deficit and financing need. While the authorities plan to use their own resources as a contingency given the fiscal risks (see below), they are ready to utilize them in combination with adjusting purchases of goods and services if there is a further shortfall in donor financing of the budget. The large fiscal expansion in 2010 will result in a significant increase in public indebtedness—with the external debt-GDP ratio rising to 61.8 percent in 2010, compared to 54.1 percent in 2009.

B. Monetary and Exchange Rate Policies

16. **The economic contraction and fiscal loosening will pose monetary policy challenges.** Maintaining the present accommodative monetary stance is appropriate for now, to support economic recovery from the severe economic shocks. However, the large planned fiscal expansion could exert upward pressures on monetary aggregates and inflation later in the year in which case the authorities would tighten monetary conditions through the sale of central banks securities. This should have little impact on credit, which is expected to stay sluggish because of weak demand and problems in the banking system.

17. **Exchange rate flexibility will be maintained.** The authorities believe that their approach of smoothing short-term excess volatility through interventions in the foreign

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[3] In April the authorities partially reversed the politically contentious electricity tariff increase implemented by the previous government in January 2010. The reversal of the tariff increase will also return the electricity companies to higher quasi-fiscal deficits.

[4] http://www.imf.org/external/pp/longres.aspx?id=4466

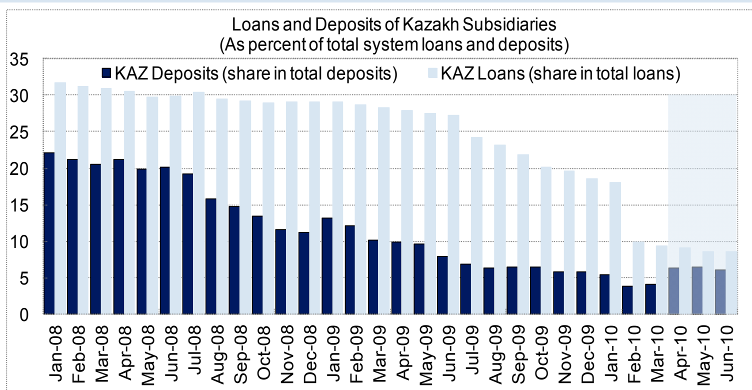
exchange market, while allowing the rate to adjust in the face of sustained pressures, has served them well, and they plan to continue with this policy.

C. Banking Sector Policies

18. **The authorities have actively embarked on resolving banking sector problems, particularly those at AUB.** They recognize the need to move quickly to limit systemic damage and fiscal costs, and create conditions for banks to start providing credit to the economy again. The authorities are pursuing a good (new) bank-bad bank solution (see Box 1). They intend to conduct a forensic audit and valuation of shares of AUB, and are being assisted in this regard by the EBRD. They are also seeking assistance in hiring a legal team to advise on bank restructuring and a management team to ensure the new bank is run on professional lines. For the other, smaller banks under temporary administration, the authorities are developing action plans. Significant technical assistance on financial stability—supervision, bank restructuring and legal aspects—has been provided, including by the Fund, and is expected to continue.

Box 1. Kyrgyz Republic: Impact of the Crisis on the Banking System and the Policy Response

The crisis has had a major impact on financial stability, primarily through problems at the systemically important AUB.



Prior to April, the banking sector was beginning to recover from the effects of the regional economic slowdown. Bank lending had begun growing in Q3, 2009 after shrinking in the year prior to that. Capital and liquidity of the system were adequate through the course of the economic crisis that the country faced in 2009. A large source of banking system vulnerability that arose during the economic boom, from exposure to banks in Kazakhstan, was reduced over a period of two years, including through the acquisition of two Kazakh banks by local banks.

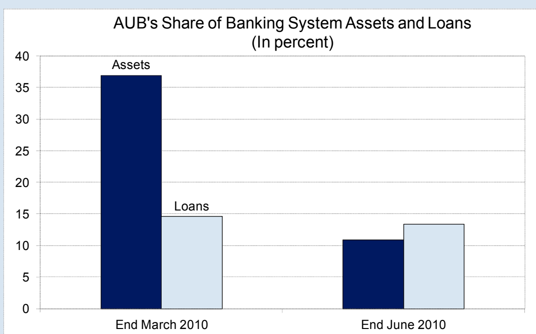
The April events have had a significant impact on the financial sector. Loan quality has begun to worsen rapidly following the crisis, particularly after the events in the south. Whilst most banks appear sufficiently liquid and capitalized, there have been problems at some, including at the AUB—the largest, with nearly 50 percent of system deposits prior to the crisis. The NBKR introduced temporary administration in AUB and six other banks (later reduced to four) after AUB saw a significant outflow of nonresident deposits, allegedly linked to the previous regime, and a discovery that a sizable portion of its liquid assets, placed with asset management companies abroad during the previous regime, may not be recoverable. AUB was put under conservatorship in June and its shares were subsequently nationalized and most corporate deposits were frozen. Its loan portfolio (about half of assets as of May, 2010) has been affected by connected and insider lending, and loan quality has deteriorated, following the events in the south where the bank had significant exposure, and because of the increasing tendency of corporate clients to offset loan repayment against frozen deposits.

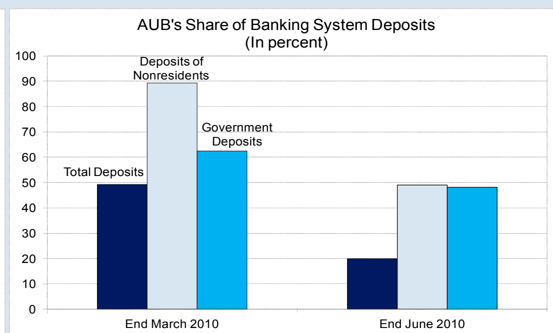
Selected Indicators of the Banking System
(In percent)

	Dec-08	Jun-09	Sep-09	Dec-09	Mar-10	Apr-10	May-10	Jun-10
Capital adequacy								
Net total capital/risk-weighted assets	32.6	27.5	29.4	33.5	31.7	35.3	27.3	25.4
Liquidity								
Liquidity ratio	82.0	82.8	85.3	86.8	86.7	90.8	85.1	75.6
Excess reserves/total reserves	30.4	25.7	25.3	33.2	15.8	39.7	45.2	43.4
Asset quality								
Nonperforming loans/total loans	5.3	8.7	9.2	8.2	7.9	9.4	11.2	13.7
Loan-loss provisioning/nonperforming loans	55.9	52.8	56.5	58.4	57.5	53.0	51.3	52.8
Profitability								
Return on equity	20.7	13.2	13.2	13.6	12.5	10.3	-52.7	-58.0
Return on assets	3.8	2.5	2.4	2.5	2.4	2.0	-10.3	-11.2
Loans and deposits								
Loans/deposits	110.2	97.2	86.5	75.7	70.8	108.5	106.6	104.1
Loans/total assets	46.6	39.0	36.2	36.9	36.4	45.2	46.7	49.4
Foreign currency exposure								
Share of foreign currency deposits in total deposits	63.6	67.6	70.4	68.3	68.5	54.0	54.5	52.7
Share of foreign currency loans in total loans	64.7	64.0	63.3	62.3	59.1	59.1	58.2	57.7

Source: National Bank of the Kyrgyz Republic.

The authorities are taking tangible steps to resolve the problems at AUB and other banks. As liquidity and solvency worsened during June and July, the authorities proceeded to begin restructuring the bank into a good (new) bank and a bad bank. Budgetary costs are inevitable because of the need to capitalize the new bank, and some portion of the public deposits that will remain in the bad bank. The remaining banks under temporary administration are smaller and in varying degrees of stress and the authorities are developing action plans—these could involve outright liquidation, change in management or eventual sale or purchase and assumption (see MEFP ¶10).





D. Near- and Medium-Term Outlook

19. **Growth should be strong in 2011 as the economy recovers from the crisis.** Economic growth in the 6–8 percent range is possible as, once internal insecurity eases, agriculture could rebound swiftly and private investment could recover and complement continuing public investments, particularly in the south. Strong external demand from Russia and Kazakhstan will allow a sharper pick up in exports of goods and services and remittances, which are expected to continue to grow strongly, could support consumption. The recovery could also be made possible by a revival in the financial sector once banking problems are resolved and credit begins to grow again. Inflation is projected to remain in the 7–8 percent range. With the commencement of energy infrastructure investments next year

(see below), a surge in capital imports would further raise the current account deficit, though the underlying deficit would stay at about 4½ percent of GDP.

20. **Over the medium term, energy-related investments are expected to be significant, but their level is uncertain till the new government takes office.** Regional energy sharing arrangements in Central Asia almost broke down last year, following Uzbekistan's decision to build bypasses and its announcement that it would pull out of the grid. The previous Kyrgyz government was in discussions with the Chinese authorities to finance and assist in the construction over the next few years of substations and transmission lines linking to the south. With the new authorities now expected to take office in October, 2010, or later, the magnitude of these investments would only be available then, though the current authorities expect these investments to be scaled back. Staff has projected total investments in this area amounting to US$550 million over the 2011–13 period, compared to the near US$850 million envisaged by the previous government. The borrowing is expected to be concessional.

21. **The Kyrgyz Republic faces the need for significant medium-term policy reorientation to restore sustainable debt dynamics.** The country is assessed as facing a moderate risk of debt distress, and the substantial fiscal expansion in 2009 and 2010 combined with planned borrowing related to energy investments over the next few years would raise external public debt temporarily above the relevant threshold. With staff projecting a strong recovery next year, and sustained growth over the medium term, a multiyear fiscal consolidation, preferably with a sizable up-front adjustment in the first year, would be needed. While the current authorities are a transitional government, they agree in principle to the need for fiscal consolidation and are planning on preparing a conservative budget for 2011—one that keeps expenditures moderate in the absence of any clear policy decision on revenue measures. The set of policy measures that the new government could consider include: increase VAT rates; strengthen tax administration; privatize state assets; discontinue one-off crisis related spending introduced in 2010; and/or minimize nominal increases in pensions and transfers.

IV. Risks to the Outlook

22. Given the ongoing fragility in the south, a deterioration of security could further endanger the economic outlook. On the upside, the high level of water reservoirs this year suggests less energy constraints on growth.

23. Fiscal risks remain. Revenues could be lower than expected if the impact of border closure on trade revenues, or the effect of the economic contraction on taxes, is more severe than projected. Tax breaks to businesses in the south could encourage evasion. On the upside, continued efforts on tax administration may yield higher revenues, while capacity constraints may not allow all the spending plans to be executed in 2010, leading to a lower than envisaged deficit.

24. Banking system problems also pose a risk, and if the resolution of AUB or other banks is not prompt, there could be impact on confidence, which, in turn, could affect deposits and financial intermediation.

25. The Russia-Kazakhstan-Belarus customs union, which came into effect in July, could have potentially a large impact on the regional shuttle trade that many Kyrgyz derive their income from. A firm estimate of its impact on the Kyrgyz economy is, as yet, not available, and such an estimate would differ according to whether the country decides to join or not (see MEFP ¶18).

26. The problems associated with the regional energy grid that came to the fore last year, with Uzbekistan intending to pull out, could resurface again over the medium term. The country's winter energy deficit would remain if it did not have access to the regional grid.

V. Program Issues

27. **The unanticipated events of April and June, 2010, give rise to a substantial and urgent budget and balance of payments need.** The imposition of duty by Russia on fuel exports to the country (accounting for one-quarter of goods imports), and an increase in the international price of wheat add to external pressures. These shocks combined with the political crisis and ethnic conflict have resulted in widening the 2010 external financing gap, last estimated in March at US$175 million, by US$78 million (1.8 percent of GDP). The reserves cover will drop to 4.1 months of imports in 2010 (from 4.6 months in 2009), which is in the low-to-moderate range given the relative openness of the Kyrgyz economy and the volatility of external inflows.

28. **Program relations are influenced by immediate needs as well as the political calendar.** With parliamentary elections, which would lead to the formation of a new government, expected in October 2010, an upper credit tranche arrangement would not be feasible or appropriate at this time. However, an RCF could provide a bridge to an ECF arrangement. The RCF would have an access of 25 percent of quota (SDR 22.2 million; about US$34 million; 13 percent of the external financing gap of US$253 million) to help address the most urgent external financing needs. Given the sizable budgetary need for emergency spending in 2010, the authorities have requested that Fund disbursement be channeled to the budget.

29. **The RCF-supported policies would address urgent social needs and limit the domestic downturn, restore banking sector stability, and improve governance.** The policies will not compound balance of payments difficulties, and the end-year indicative targets under the RCF will help build a track record (for possible ECF arrangement early next year), as they indicate an outer limit for the fiscal deficit and a floor for the international reserves, as well as banking resolution measures (see LOI Table 1). In addition to contributing to the financing package, the Fund RCF should help to catalyze lending from other donors by providing reassurance that the crisis response is set within a sound overall

macroeconomic framework. Given Kyrgyz Republic's longer-term program engagement with the Fund, staff also plans to conduct an Ex-Post Assessment prior to initiating discussions on an ECF arrangement.

30. **Governance and safeguards issues would also be addressed.** The authorities have: (i) confirmed that the NBKR remains the exclusive authority in charge of foreign exchange reserves; (ii) [signed as a prior action] a Memorandum of Understanding between the NBKR and the Ministry of Finance (covering management of foreign exchange reserves and the channeling of Fund budget support to the latter)[5]; (iii) included in their MEFP, a commitment to undertake a forensic audit of the KRDF—so as to confirm that resources in the Development Fund were not misappropriated under the previous regime, and to take appropriate legal action if they were (see MEFP ¶17). For a discussion of governance issues related to the ESF, see Box 2.

31. **The authorities also intend to take some structural actions in the banking sector.** To ensure there is sufficient progress on AUB resolution and a basis for legal action against any impropriety at the bank, under the previous regime, the authorities agree to a forensic audit and valuation of shares by an internationally recognized firm—the issuance of a closed tender and terms of reference by the NBKR based on an EBRD shortlist is a prior action (see LOI Table 2). They also commit to developing an action plan for banks under temporary administration (see MEFP ¶16).

32. **The Kyrgyz Republic has adequate capacity to repay the Fund and commits to safeguard Fund resources**. The DSA update (see attached Appendix Tables 1a and 3a, and Appendix Figure 1) indicates that the Kyrgyz Republic continues to face a moderate risk of debt distress. Preexisting borrowing space is expected to accommodate the fiscal deficit this year as well a scaled-down version of the planned large scale investments in the energy sector to be financed through external borrowing over the next three years. The debt outlook is expected to deteriorate but not to the point of increasing the risk of debt distress. This warrants a prudent approach and the need for fiscal consolidation in subsequent years.

Box 2. Kyrgyz Republic: Program Issues under the Exogenous Shocks Facility (ESF)

The program under the ESF expired in June. The 18-month arrangement under the high access component of the ESF, in the amount of SDR 66.6 million—2 percent of GDP, ¾ of quota—was approved at end-2008 and expired on June 9, 2010. The first, and only, review was completed in May 2009.

Governance concerns led to delays in the completion of second review. The previous authorities' decision in September 2009 to place a substantial portion of the saved bilateral assistance received in 2009 in investments overseas raised concerns about governance and safeguards of public resources. Such concerns were heightened further by the issuance of an arrest warrant in March 2010 by the Italian authorities for alleged fraud by the

[5] Under Kyrgyz law the NBKR is forbidden from financing the budget deficit.

head of the MGN group, the company managing the government's overseas investments. Following the news of the scandal, and as a precondition for proceeding with the second ESF review, the authorities liquidated their overseas investments and repatriated the receipts to the central bank. Discussions with staff on their future management were ongoing when the government changed in mid-April.

VI. Staff Appraisal

33. **Dealing with the shocks of political turmoil in April and the inter-ethnic flare-up in June 2010 is a serious challenge for the authorities.** With the economy contracting, they have the complex task of dealing with the political and social crisis and minimizing the damage to the economy, while managing a constitutional transition and preparing for elections. The domestic political crisis and ethnic conflict, and the imposition of duty on fuel exports by Russia, give rise to a substantial and urgent budgetary and balance of payments need. Staff believes that if the balance of payment need is not met, then it would result in an immediate and severe economic disruption. In these circumstances, and given the authorities' strong policy response to the crisis the staff supports their request for an RCF disbursement. The RCF disbursement would help address the balance of payments need, enable the country to make progress towards restoring a stable and sustainable macroeconomic position consistent with durable poverty reduction, and help catalyze donor support for the country.

34. **The authorities' fiscal policy response to the economic crisis has been appropriate, but there are limits to the expansion.** While the large fiscal expansion is an appropriate response to the severe economic contraction expected in 2010, its magnitude poses risks, and given the uncertainties, the outcome could be worse than in the central scenario presented here. Under these circumstances therefore, any further loosening of the fiscal stance, beyond the limit agreed for 2010, could endanger macroeconomic stability and debt sustainability. Staff supports the authorities' request for the disbursement under the RCF to be channeled to the budget.

35. **While staff sees the balance between revenue and expenditure choices as appropriate, there are limits to the extent to which the expenditure envelope should be stretched.** The weak economy, a transitional government and the need for interethnic equality all suggest that it may not be appropriate to raise tax rates this year, and in these circumstances the authorities' focus on improving tax administration is welcome. Their decision to trim low priority capital spending in the face of external budget financing shortfall is also apt. However, the reversal of the electricity tariff increase has delayed efforts to reform the energy sector and reverted the sector back to quasi-fiscal deficit. While the decision to maintain the pension increase, implemented originally to compensate those affected by the electricity tariff increase, is understandable on the grounds that with economic weakness and political fragility it may not be appropriate to withdraw such a measure now, it nevertheless adds to the fiscal burden and increases entitlement spending. In general in dealing with the crisis, there should be a preference for "one-off" spending over entitlement expenditures. Also, the authorities would be well advised to recognize the limits

to absorptive capacity, particularly when considering the pace of expenditures in the south of the country.

36. **In case of a shortfall in donor budget financing, the authorities would have to adjust spending while preserving essential and priority outlays.** While the authorities agree to this and have shown spending restraint in the face of budget financing pressures earlier in the year, they are advised to prepare in advance for such a contingency. The ability to appropriately adjust spending to a financing shortfall would also depend on developing cash plans.

37. **To maintain debt sustainability, there is a need for near and medium term fiscal consolidation.** A sharp adjustment will likely be needed in 2011, followed by further consolidation over the next 3–4 years. While planned energy-related investments, that are expected to start next year, are necessary, given the possible breakdown of the regional energy sharing grid, the scale of these projects—as planned by the previous government—may have to be moderated because of debt sustainability concerns (staff projections here indicate the limit to which such expenditures could be undertaken from a debt sustainability standpoint). Staff has also made a case in the JEA report that for debt sustainability reasons, additional support to the country should be provided in the form of grants and highly concessional loans.

38. **Monetary policy will need to support the post-crisis economic recovery while guarding against signs of exchange rate or inflationary pressures.** The central bank will need to be vigilant to mop up excess liquidity through domestic sterilization. With the fiscal expansion and continued political and security uncertainty, exchange market pressures could mount, and the authorities' should be ready to tighten monetary policy if necessary. The policy of smoothing short-term exchange market pressures through interventions, while allowing the exchange rate to adjust in the face of sustained pressure has served the country well and is well suited for a relatively open economy like the Kyrgyz Republic.

39. **The authorities have responded to heightened systemic risks in the financial sector in a decisive and forceful manner, but continued efforts are needed to stabilize the situation.** The decision to resolve and restructure AUB is commendable and it balances appropriately the need to maintain financial stability with the necessity of minimizing fiscal costs. During the period the bank is being resolved, it should have access to collateralized central bank liquidity. Obtaining clarity on the true picture of the balance sheet is also an essential step and the authorities' decision to conduct a forensic audit and valuation of shares is welcome. Given the limited experience within the country in handling such matters, the authorities are right to seek the services of legal experts and professional managers to advise and assist them through the process. With the rapidly rising rate of NPLs and possibility of further negative feedback from the economic shock to loan books, the authorities should be vigilant about the rest of the banks, including those under temporary administration. They

should promptly develop and implement action plans for the banks under temporary administration.

40. **The authorities' emphasis on improving governance, transparency and safeguards is welcome.** The steps the authorities are taking toward improving transparency and governance will also help to reassure the donor community that public resources are being appropriately handled.

Proposed Decision: Kyrgyz Republic—Request for Disbursement under the RCF

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

1. The Kyrgyz Republic has requested a loan disbursement in an amount equivalent to SDR 22.2 million (25 percent of quota) under the Rapid Credit Facility of the Poverty Reduction and Growth Trust.

2. The Fund notes the intentions of the Kyrgyz Republic as set forth in the letter from the President of the Kyrgyz Republic, the Minister of Finance of the Kyrgyz Republic, and the Acting Governor of the National Bank of the Kyrgyz Republic, dated August 26, 2010 (the "August 2010 Letter") and its attachments, and approves the disbursement in accordance with the request, on the condition that the information provided by the Kyrgyz Republic on the implementation of the prior actions specified in Table 2 of the August 2010 Letter is accurate.

Table 1. Kyrgyz Republic: Selected Economic Indicators, 2007–11

	2007	2008	2009	2010	2011
	Act.	Act.	Prel.	Proj.	
Nominal GDP (in billions of soms)	141.9	188.0	196.4	207.1	237.6
Nominal GDP (in millions of U.S. dollars)	3,805	5,131	4,570	4,444	4,763
Real GDP (growth in percent)	8.5	8.4	2.3	-3.5	7.1
Non-gold real GDP (growth in percent)	9.0	6.5	2.9	-4.6	6.8
GDP per capita (in U.S. dollars)	726	968	853	818	867
Consumer prices (12-month percent change, eop)	20.1	20.1	0.0	7.5	8.0
Consumer prices (12-month percent change, average)	10.2	24.5	6.8	4.8	7.1
Investment and savings (in percent of GDP)					
Investment	21.3	20.5	23.6	25.3	29.7
Public	4.8	4.2	5.2	9.6	8.0
Private	16.5	16.3	18.4	15.7	21.8
Savings	21.0	12.4	25.7	19.9	20.4
Public	4.1	5.1	4.0	-1.4	-0.5
Private	16.9	7.3	21.7	21.3	20.9
Savings-investment balance	-0.3	-8.1	2.1	-5.4	-9.3
General government finances (in percent of GDP) 1/					
Total revenue and grants	30.3	29.9	33.0	33.9	30.3
Of which: Tax revenue	22.6	23.0	22.7	22.4	22.8
Total expenditure (including net lending)	31.0	29.3	37.0	45.9	38.8
Of which: Current expenditure	26.2	24.8	29.1	35.4	30.8
Capital expenditure	4.8	4.2	5.2	9.6	8.0
Overall fiscal balance	-0.3	0.0	-3.7	-12.0	-8.5
Primary balance	0.3	0.8	-2.9	-10.8	-7.7
Primary balance excluding grants	-1.9	-1.1	-8.2	-16.2	-9.6
Total public debt	56.8	48.5	59.4	70.0	68.2
Banking sector 2/					
Reserve money (percent change, eop)	38.5	11.3	18.3	16.8	17.5
Broad money (percent change, eop)	28.9	11.4	17.9	15.3	18.7
Credit to private sector (percent change, eop)	45.0	26.4	-2.8	-0.1	20.3
Credit to private sector (in percent of GDP)	39.3	14.4	13.2	11.5	12.0
Velocity of broad money 3/	3.32	3.91	3.40	3.25	3.15
Interest rate 4/	5.6	19.2	1.9	...	...
External sector					
Current account balance (in percent of GDP)	-0.2	-8.1	2.1	-5.4	-9.3
Export of goods and services (million U.S. dollars)	2,244	3,037	2,821	2,874	3,349
Export growth (percent change)	51.1	35.4	-7.1	1.9	16.5
Import of goods and services (million U.S. dollars)	3,218	4,747	3,680	4,128	4,988
Import growth (percent change)	42.8	47.5	-22.5	12.2	20.8
Gross International reserves (million U.S. dollars)	1,194	1,222	1,584	1,697	1,827
Gross reserves (months of next year imports, eop)	3.0	4.0	4.6	4.1	4.0
External public debt outstanding (in percent of GDP)	54.6	41.2	54.1	61.8	62.6
External public debt service-to-export ratio (in percent)	2.9	2.4	3.2	3.4	8.4
Memorandum items					
Exchange rate (soms per U.S. dollar, average)	37.3	36.6	43.0	...	...
Real effective exchange rate (2000=100) (average)	113.3	128.7	127.3	...	...
Gold related tax receipts of the general government (percent of GDP)	...	0.8	1.4	1.8	...

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

1/ General government comprises State Government, Social Fund and Development Fund (starting from September 2009) finances. State government comprises central and local governments.
2/ At actual exchange rates for 2008 and 2009, at program exchange rates (KGS 38.21 per 1 U.S. dollar) for 2010 and 2011.
3/ 12-month GDP over end-period broad money.
4/ Interest rate on 3-month treasury bills.

Table 2. Kyrgyz Republic: Balance of Payments, 2008–15
(In millions of U.S. dollars)

	2008	2009	2010	2011	2012	2013	2014	2015
	Act.	Prel.			Proj.			
Current account balance	-413	95	-239	-444	-289	-260	-234	-244
excluding transfers	-1,890	-1,124	-1,520	-1,807	-1,782	-1,946	-2,122	-2,253
Trade balance	-1,612	-853	-1,145	-1,614	-1,463	-1,528	-1,524	-1,732
Exports, fob	2,141	1,961	2,064	2,427	2,903	3,341	3,648	3,784
CIS countries	1,279	1,020	959	1,100	1,288	1,464	1,563	1,670
Of which: energy products	269	180	128	75	77	85	88	96
Of which: Re-exports of consumer goods 1/	267	141	154	190	224	255	159	102
Non-CIS countries	863	941	1,105	1,327	1,615	1,877	2,085	2,114
Of which: Gold	463	529	697	797	962	1,129	1,288	1,290
Of which: Re-exports of oil products	126	45	14	0	0	0	0	0
Imports, fob	3,754	2,814	3,209	4,041	4,366	4,869	5,172	5,516
CIS countries	2,025	1,594	1,896	2,238	2,474	2,650	2,873	3,052
Of which: Energy (including for re-exports)	1,081	722	898	991	1,063	1,127	1,209	1,270
Non-CIS countries	1,728	1,220	1,313	1,803	1,892	2,219	2,300	2,464
Of which: Goods for re-exports	243	128	140	173	204	232	144	93
Services	-97	-7	-109	-26	46	-7	-58	-81
Receipts	896	860	810	922	1,159	1,305	1,385	1,474
Payments	-993	-867	-919	-948	-1,112	-1,313	-1,443	-1,555
Income	-180	-265	-266	-167	-365	-411	-540	-440
Interest payments 2/	-29	-44	-42	-34	-41	-47	-53	-55
Other net income	-151	-220	-224	-133	-325	-364	-487	-385
Current Transfers (net)	1,477	1,220	1,281	1,363	1,493	1,686	1,887	2,009
Of which: Private	1,431	1,013	1,220	1,335	1,482	1,675	1,876	1,998
Capital Account	-18	14	39	214	-26	-24	25	22
Official	72	84	129	284	64	66	115	117
Private	-89	-70	-90	-70	-90	-90	-90	-95
Financial account	154	376	82	157	465	431	448	374
Commercial banks	15	-106	-50	-25	0	0	0	0
Medium- and long-term loans, net	34	283	108	77	332	276	171	149
Disbursement	92	408	212	388	455	370	240	226
Of which: Loan financed PIP	38	70	165	120	120	124	133	138
Of which: Energy and other investments financed by China and Eurasec	…	…	0	250	150	150	…	…
Amortization 2/	-58	-125	-104	-311	-122	-94	-69	-77
FDI and Portfolio investment (net) 3/	240	169	175	105	133	155	277	225
Other (including change in reserve assets)	0	131	0	0	0	0	0	0
Net short-term flows	-134	-100	-151	0	0	0	0	0
Errors and omissions	376	-190	0	0	0	0	0	0
Overall balance	100	295	-118	-73	150	148	239	153
Financing	-100	-295	118	73	-150	-148	-239	-153
Net international reserves	-103	-295	-135	-152	-250	-148	-239	-153
Gross official reserves (–, increase)	-121	-293	-114	-130	-230	-130	-218	-136
IMF (net)	18	-2	-21	-23	-21	-17	-20	-17
Exceptional Financing (including arrears)	3	0	0	0	0	0	0	0
Financing gap	0	0	253	225	100	0	0	0
Memorandum items:								
GDP (in millions of U.S. dollars)	5,131	4,570	4,444	4,763	5,303	5,862	6,497	6,904
Current account balance (percent of GDP)	-8.1	2.1	-5.4	-9.3	-5.5	-4.4	-3.6	-3.5
Current account balance excl. official transfers (percent of GDP)	-8.9	-2.4	-6.8	-9.9	-5.7	-4.6	-3.8	-3.7
Growth of exports of GNFS (volume, percent)	17.0	2.3	-12.4	8.6	14.5	9.7	3.2	-1.0
Growth of imports of GNFS (volume, percent)	22.7	-12.2	-8.1	19.9	9.3	11.7	4.7	4.5
Terms of trade (goods, percentage change)	-4.2	4.5	-6.4	3.0	2.3	1.3	0.8	1.1
Gold price (U.S. dollars per ounce)	871.7	973.0	1,183.3	1,220.5	1,245.1	1,281.0	1,329.4	1,380.0
External Public Debt (in millions of U.S.dollars) 4/	2,113	2,472	2,748	2,984	3,355	3,634	3,777	3,907
as percent of GDP	41.2	54.1	61.8	62.6	63.3	62.0	58.1	56.6
Public debt service-to-exports ratio 4/ 5/	2.4	3.2	3.4	8.4	2.3	2.1	2.2	2.1
Gross reserves 6/	1,222	1,584	1,697	1,827	2,057	2,187	2,405	2,541
in months of subsequent year's imports	4.0	4.6	4.1	4.0	4.0	4.0	4.1	4.2

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

1/ Reflects adjustments to the official statistics to account for the staff's estimate for re-exports through informal border trade.

2/ Starting 2006, interest and amortization reflect bilateral agreements signed following March 2005 Paris Club agreement to grant debt relief on London terms.

3/ Includes return of KRDF investments abroad of U.S. dollar 111 million.

4/ Public and publicly guaranteed debt.

5/ Net of rescheduling.

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

Table 3. Kyrgyz Republic: NBKR Accounts, 2008–11 1/

	2008				2009				2010				2011
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Dec.
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.
	(In millions of soms)												
Net foreign assets	28,826	31,400	36,405	35,740	29,924	47,559	37,464	40,736	43,749	43,312	42,062	48,909	54,702
Net international reserves	31,287	33,783	38,538	37,742	31,828	49,450	44,191	47,442	50,462	49,993	48,737	55,584	61,377
Long-term foreign liabilities 2/	-2,047	-2,044	-2,058	-2,035	-2,029	-2,010	-6,837	-6,820	-6,814	-6,795	-6,789	-6,789	-6,789
Other foreign assets	-368	-291	-24	72	148	148	148	148	148	148	148	148	148
Balances with CIS countries	-46	-48	-51	-38	-23	-29	-38	-35	-48	-34	-34	-34	-34
Net domestic assets	292	1,140	-1,459	-608	-227	-13,442	-986	782	-4,230	-2,043	517	-398	2,316
Net claims on general government	531	1,001	-136	456	411	-13,845	-2,277	-1,170	-6,065	-4,802	-2,581	-3,303	-904
Of which: total government deposits (including FX deposits)	-4,616	-4,111	-5,271	-4,612	-4,265	-18,523	-6,775	-3,504	-4,197	-2,489	-7,319	-8,041	-5,642
Of which: claims on Development Fund	…	…	…	…	…	…	-191	-2,293	-6,725	-7,071	0	0	0
Repos	-182	-231	-10	0	-11	0	0	0	0	0	0	0	0
Claims on commercial banks	302	301	300	299	297	296	296	295	294	293	290	290	290
Other items (net) 3/	-360	69	-1,612	-1,363	-925	107	995	1,657	1,542	2,466	2,808	2,615	2,929
Of which : NBKR notes	-897	-667	-1,759	-1,642	-846	-1,100	-984	-1,060	-986	-200	-358	-1,101	-1,382
Reserve money	29,117	32,540	34,947	35,132	29,696	34,118	36,478	41,517	39,519	41,269	42,578	48,511	57,018
Currency in circulation	25,605	28,418	30,613	30,803	25,778	29,561	31,108	35,739	34,510	36,943	38,746	43,417	49,149
Commercial banks' reserves and other balances	3,512	4,122	4,333	4,329	3,919	4,556	5,371	5,779	5,009	4,326	3,832	5,094	7,868
Of which: required reserves	2,226	2,515	2,563	2,668	2,667	3,029	3,894	3,623	4,182	2,373	1,966	2,183	2,794
	(Contribution to reserve money growth, in percent) 4/												
Net foreign assets	-8.6	-0.5	15.4	13.3	-16.6	33.6	4.9	14.2	7.3	6.2	3.2	19.7	11.9
Net domestic assets	0.8	3.5	-4.7	-2.0	1.1	-36.5	-1.1	4.0	-12.1	-6.8	-0.6	-2.8	5.6
Of which: net claims on general government	-0.7	0.7	-2.9	-1.0	-0.1	-40.7	-7.2	1.9	-1.1	2.8	-8.9	-10.7	4.9
Reserve money	-7.8	3.0	10.7	11.2	-15.5	-2.9	3.8	18.2	-4.8	-0.6	2.6	16.8	17.5
Of which: currency in circulation	-6.2	2.7	9.7	10.3	-14.3	-3.5	0.9	14.0	-3.0	2.9	7.2	18.5	11.8
Memorandum items:													
Reserve money (12-month change, in percent)	31.3	27.6	27.5	11.2	2.0	4.8	4.4	18.2	33.1	21.0	16.7	16.8	17.5
Net international reserves (in millions of U.S. dollars) 5/	819	884	1,009	988	833	1,294	1,157	1,242	1,321	1,308	1,242	1,422	1,606
Net domestic assets (in millions of soms) 5/ 6/	-1,781	-948	-3,561	-2,705	-2,318	-15,532	-3,071	-1,302	-6,307	-4,120	-291	-1,206	247
Gross International Reserves (in millions of U.S. dollars)	952	1,031	1,145	1,147	982	1,467	1,321	1,404	1,485	1,421	1,415	1,592	2,984

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

1/ Based on program exchange rates (including 38.21 Som/US dollar) specified in the TMU. This makes a change in net claims on government and domestic financing between monetary and fiscal tables non-comparable.

2/ As of September 2009, includes general and special SDR allocation.

3/ Includes NBKR notes and the Specialized Bank Refinancing Fund.

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

5/ Based on TMU definition.

6/ Excludes medium- and long-term central bank liabilities (i.e.the loan by the Eximbank of Turkey and the EBRD/IDA enterprise loan channeled through the NBKR).

Table 4. Kyrgyz Republic: Monetary Survey, 2008–11 1/ 2/

	2008				2009				2010				2011
	Mar. Act.	Jun. Act.	Sept. Act.	Dec. Act.	Mar. Act.	Jun. Act.	Sept. Act.	Dec. Act.	Mar. Act.	Jun. Act.	Sept. Proj.	Dec. Proj.	Dec. Proj.
	(In millions of soms)												
Net foreign assets	26,494	30,143	34,736	33,939	29,700	48,818	41,736	45,661	48,488	46,476	45,625	53,262	60,011
Of which: long-term foreign liabilities (-)	-2,047	-2,044	-2,058	-2,035	-2,029	-2,010	-6,837	-6,820	-6,814	-6,795	-6,789	-6,789	-1,955
Net domestic assets	13,616	15,491	13,678	12,915	10,461	-3,442	6,308	9,517	5,717	8,762	11,600	10,384	15,538
Domestic credit	21,438	23,877	23,701	23,478	21,314	5,673	16,063	18,515	14,438	15,831	19,926	19,454	24,292
Net claims on general government	-2,364	-2,552	-3,500	-2,674	-3,698	-18,070	-7,465	-5,287	-9,923	-8,248	-5,217	-4,325	-4,325
Of which: Claims on special funds	…	…	…	… .	…	…	-1,529	-3,420	-8,396	0	0	0	0
Credit to the rest of the economy	23,802	26,428	27,202	26,152	25,012	23,743	23,527	23,802	24,361	24,078	25,144	23,779	28,618
Of which: in forex	14,350	15,793	16,228	15,752	15,005	13,978	13,588	13,324	12,623	12,035	13,075	12,365	14,309
Other items net	-7,822	-8,385	-10,024	-10,563	-10,853	-9,115	-9,755	-8,998	-8,721	-7,069	-8,326	-9,069	-8,755
Broad money (M2X)	40,110	45,635	48,413	46,854	40,161	45,377	48,044	55,177	54,205	55,239	57,225	63,646	75,548
Of which:													
Broad money, excluding forex deposits (M2)	32,581	35,608	38,111	37,028	31,518	36,328	38,005	43,490	42,767	45,916	47,262	52,689	62,737
Currency held by the public	24,447	27,095	29,254	29,385	24,591	27,895	29,449	33,882	32,563	35,341	36,404	40,749	47,610
Total domestic currency deposit liabilities	8,135	8,513	8,857	7,643	6,928	8,434	8,556	9,608	10,204	10,575	10,857	11,940	15,128
	(Contribution to broad money growth, in percent) 3/												
Net foreign assets	-8.2	0.3	11.1	9.2	-9.0	31.8	16.6	25.0	5.1	1.5	-0.1	13.8	10.6
Net domestic assets	1.7	6.1	1.8	0.1	-5.2	-34.9	-14.1	-7.3	-6.9	-1.4	3.8	1.6	8.1
Domestic credit	2.6	8.3	7.9	7.4	-4.6	-38.0	-15.8	-10.6	-7.4	-4.9	2.6	1.7	7.6
Net claims on general government	-1.5	-1.9	-4.1	-2.2	-2.2	-32.9	-10.2	-5.6	-8.4	-5.4	0.1	1.7	0.0
Credit to the rest of the economy	4.1	10.2	12.0	9.5	-2.4	-5.1	-5.6	-5.0	1.0	0.5	2.4	0.0	7.6
Other items (net)	-0.9	-2.2	-6.0	-7.3	-0.6	3.1	1.7	3.3	0.5	3.5	1.2	-0.1	0.5
Broad money (M2X)	-6.5	6.4	12.9	9.3	-14.3	-3.2	2.5	17.8	-1.8	0.1	3.7	15.3	18.7
Of which:													
Broad money, excluding forex deposits (M2)	-3.7	3.4	9.2	6.7	-11.8	-1.5	2.1	13.8	-1.3	4.4	6.8	16.7	15.8
Currency held by the public	-5.2	1.0	6.0	6.3	-10.2	-3.2	0.1	9.6	-2.4	2.6	4.6	12.4	10.8
Total deposit liabilities	-1.3	5.4	6.9	2.9	-4.1	0.0	2.4	8.2	0.6	-2.5	-0.9	2.9	7.9
Memorandum items:													
Broad money (M2X) (12-month change, in percent)	32.1	30.4	25.4	9.3	0.1	-0.6	-0.8	17.8	35.0	21.7	19.1	15.3	18.7
Credit to the rest of the economy (12-month change, in percent)	48.5	39.3	27.0	18.5	5.1	-10.2	-13.5	-9.0	-2.6	1.4	6.9	-0.1	20.3
Credit to economy (in percent of GDP)	16.1	16.8	15.6	14.1	13.2	12.3	12.3	12.1	12.0	11.9	12.0	11.5	12.0
M2X velocity 4/	3.5	3.4	3.6	3.9	4.7	4.3	4.0	3.6	3.7	3.7	3.7	3.3	3.1
M2X multiplier	1.38	1.40	1.39	1.33	1.35	1.33	1.32	1.33	1.37	1.34	1.34	1.31	1.33
Dollarization indicators (in percent)													
Loan dollarization	60.3	59.8	59.7	60.2	60.0	58.9	57.8	56.0	51.8	50.0	52.0	52.0	50.0
Deposit dollarization	48.1	54.1	53.8	56.2	55.5	51.8	54.0	54.9	52.8	46.9	47.9	47.9	45.9

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

1/ Based on program exchange rates (including 38.21 Som/US dollar) specified in the TMU.

2/ As of January 2009, banks are compiling their balance sheets based on a new reporting framework which introduces a break in the series. Data for 2008 was adjusted for comparability.

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

4/ 12-month GDP over end-period broad money.

Table 5. Kyrgyz Republic: General Government Finances, 2008–11

	2008	2009 1/					2010					2011
		Q1 Act.	Q2 Act.	Q3 Act.	Q4 Prel.	Year Prel.	Q1 Prel. Act.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Year Proj.	Year Proj.
	(In millions of soms, unless indicated otherwise)											
Total revenue and grants	56,224	11,732	21,636	14,446	17,037	64,852	15,258	16,084	16,866	22,034	70,242	71,936
Total revenue	52,700	11,122	14,364	13,483	15,464	54,432	14,477	14,081	14,790	15,873	59,221	67,389
Current revenue	51,323	11,023	14,174	13,289	15,265	53,750	14,350	13,927	14,540	15,587	58,403	66,433
Tax revenue	43,169	9,137	11,514	11,456	12,538	44,645	12,230	10,876	11,528	11,748	46,382	54,142
Income tax	6,909	1,899	3,027	2,320	3,015	10,261	4,202	3,137	2,340	2,346	12,025	13,506
VAT 1/	16,540	2,861	3,153	3,839	3,614	13,467	3,108	3,134	3,330	3,922	13,494	16,046
Excises	1,575	325	405	458	481	1,669	370	366	537	699	1,972	2,985
Customs	4,634	877	914	1,033	1,316	4,139	871	896	1,316	1,284	4,367	5,482
Land tax	666	171	169	320	257	917	199	144	199	194	736	847
Road tax and Emergency Fund 1/	2,879	272	105	8	18	403	13	13	0	0	26	0
Retail sales tax 1/	1,516	0	0	0	0	0	0	0	0	0	0	0
New turnover tax 1/	…	476	992	1,186	1,280	3,933	1,100	811	1,071	1,122	4,105	4,177
Social Fund (excl. gov. contribution)	7,244	1,844	2,132	2,127	2,444	8,547	2,122	2,060	2,594	1,923	8,700	9,888
Other	1,207	414	617	165	114	1,309	244	314	142	257	957	1,213
Nontax revenue 2/	8,155	1,886	2,660	1,833	2,727	9,106	2,119	3,051	3,012	3,838	12,020	12,291
Capital revenue	1,377	99	190	194	200	682	127	154	250	287	818	956
Grants	3,524	610	7,273	964	1,572	10,419	782	2,003	2,076	6,161	11,021	4,546
Program grants	1,400	185	6,750	236	653	7,825	397	966	624	3,888	5,874	998
PIP grants	2,124	425	522	728	919	2,595	385	1,038	1,452	2,273	5,147	3,549
Total expenditure (including net lending and KRDF)	55,058	11,426	18,449	17,824	24,992	72,690	15,265	22,180	26,749	30,904	95,097	92,132
Total expenditure (excluding net lending)	54,408	11,661	18,316	17,559	24,192	71,728	15,503	22,148	25,549	29,827	93,027	92,132
Current expenditure	46,594	9,899	16,012	13,351	17,815	57,077	12,558	16,901	19,589	24,171	73,218	73,156
Wages	12,228	2,813	4,363	3,118	4,377	14,670	3,063	4,853	4,647	6,038	18,600	21,217
Transfers and subsidies	6,156	1,449	1,874	1,384	2,144	6,850	2,231	2,524	2,348	2,869	9,972	9,097
Social Fund expenditures	9,359	2,397	3,379	3,371	4,214	13,361	3,819	4,506	5,034	6,197	19,556	21,312
Pensions	8,324	2,203	3,036	3,018	3,792	12,048	3,556	4,079	4,645	5,731	18,011	19,587
Other benefits and spending	1,035	194	343	354	422	1,313	264	427	389	466	1,545	1,725
Interest	1,408	207	604	372	428	1,612	415	527	623	829	2,394	1,934
Purchases of other goods and services	17,443	3,033	5,792	5,106	6,652	20,583	3,030	4,491	6,937	8,238	22,696	19,597
Capital expenditure	7,814	1,763	2,304	3,336	2,756	10,159	2,946	5,247	5,960	5,657	19,809	18,975
Domestically financed capital expenditure	4,297	707	1,537	1,071	1,267	4,582	1,164	2,167	1,826	1,804	6,962	9,460
Foreign financed PIP loans	1,393	630	244	1,537	570	2,982	1,396	2,042	2,682	1,581	7,701	5,967
Foreign financed PIP grants	2,124	425	522	728	919	2,595	385	1,038	1,452	2,273	5,147	3,549
Net lending 3/	650	-236	134	265	800	962	-239	32	1,200	1,077	2,070	0
KRDF (total spending) 4/	…	…	…	872	3,620	4,492	0	0	0	0	0	0
Discrepancy	-1,146	18	537	1,481	-1,546	489	-203	0	0	203	0	0
Primary balance excluding grants	-2,096	-79	-2,944	-2,489	-10,645	-16,157	-576	-7,572	-11,336	-13,999	-33,482	-22,808
Primary balance	1,428	531	4,328	-1,525	-9,073	-5,738	205	-5,568	-9,260	-7,838	-22,461	-18,262
Overall balance	20	324	3,724	-1,897	-9,501	-7,350	-210	-6,095	-9,884	-8,667	-24,855	-20,196
Total financing	-20	-324	-3,724	1,897	9,501	7,350	210	6,095	9,884	8,667	24,855	20,196
External financing	705	407	12,694	1,369	420	14,890	1,135	1,432	3,862	7,931	14,361	15,208
Domestic financing	-471	-734	-16,418	10,398	3,831	-2,924	-4,983	3,385	6,066	636	5,104	4,788
NBKR	138	242	-16,283	13,097	1,032	-1,911	-5,270	3,165	2,321	-902	-685	3,131
Commercial banks	-575	-1,041	-115	-2,692	2,689	-1,160	299	220	3,745	1,537	5,802	1,657
Nonbank	-35	65	-20	-7	110	148	-12	0	0	0	-12	0
Privatization 5/	-253	3	0	0	30	34	145	0	-45	100	200	200
Use of KRDF investments abroad 4/ 6/	…	0	0	-9,870	5,220	-4,651	3,912	1,279	0	0	5,190	0

Sources: Kyrgyz authorities; and Fund staff estimates and projections.
1/ In 2009, the road, emergency and retail taxes have been abolished, the VAT tax rate reduced from 20 to 12 percent, and a new turnover tax introduced.
Median turnover tax rate was reduced from 2.5 percent to 2 percent from January 1, 2010.
2/ Includes appropriation of confiscated assets of $19.6 million contingent upon court resolution.
3/ Includes capitalization of a problem bank through the issuance of a domestic bond in the amount of KGS 1 500 million.
4/ Unaudited data.
5/ Negative numbers mean unwinding of previous privatizations.
6/ Negative numbers indicate outflow of assets overeas.

Table 6. Kyrgyz Republic: General Government Finances, 2008–11

	2008	2009					2010					2011
		Q1 Act.	Q2 Act.	Q3 Act.	Q4 Prel.	Year Prel.	Q1 Prel. Act.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Year Proj.	Year Proj.
	(In percent of GDP)											
Total revenue and grants	29.9	36.4	51.7	22.9	28.8	33.0	39.3	38.3	24.0	39.4	33.9	30.3
Total revenue	28.0	34.5	34.3	21.3	26.2	27.7	37.3	33.5	21.0	28.3	28.6	28.4
Current revenue	27.3	34.2	33.9	21.0	25.8	27.4	37.0	33.2	20.7	27.8	28.2	28.0
Tax revenue	23.0	28.4	27.5	18.1	21.2	22.7	31.5	25.9	16.4	21.0	22.4	22.8
Income tax	3.7	5.9	7.2	3.7	5.1	5.2	10.8	7.5	3.3	4.2	5.8	5.7
VAT	8.8	8.9	7.5	6.1	6.1	6.9	8.0	7.5	4.7	7.0	6.5	6.8
Excises	0.8	1.0	1.0	0.7	0.8	0.8	1.0	0.9	0.8	1.2	1.0	1.3
Customs	2.5	2.7	2.2	1.6	2.2	2.1	2.2	2.1	1.9	2.3	2.1	2.3
Land tax	0.4	0.5	0.4	0.5	0.4	0.5	0.5	0.3	0.3	0.3	0.4	0.4
Road tax and Emergency Fund	1.5	0.8	0.3	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Retail sales tax	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New turnover tax	…	1.5	2.4	1.9	2.2	2.0	2.8	1.9	1.5	2.0	2.0	1.8
Social Fund (excl. gov. contribution)	3.9	5.7	5.1	3.4	4.1	4.4	5.5	4.9	3.7	3.4	4.2	4.2
Other	0.6	1.3	1.5	0.3	0.2	0.7	0.6	0.7	0.2	0.5	0.5	0.5
Grants	1.9	1.9	17.4	1.5	2.7	5.3	2.0	4.8	3.0	11.0	5.3	1.9
Program grants	0.7	0.6	16.1	0.4	1.1	4.0	1.0	2.3	0.9	6.9	2.8	0.4
PIP grants	1.1	1.3	1.2	1.2	1.6	1.3	1.0	2.5	2.1	4.1	2.5	1.5
Total expenditure (including net lending and KRDF)	29.3	35.5	44.1	28.2	42.3	37.0	39.3	52.8	38.0	55.2	45.9	38.8
Total expenditure (excluding net lending)	28.9	36.2	43.8	27.8	40.9	36.5	40.0	52.8	36.3	53.3	44.9	38.8
Current expenditure	24.8	30.7	38.3	21.1	30.1	29.1	32.4	40.3	27.9	43.2	35.4	30.8
Wages	6.5	8.7	10.4	4.9	7.4	7.5	7.9	11.6	6.6	10.8	9.0	8.9
Transfers and subsidies	3.3	4.5	4.5	2.2	3.6	3.5	5.7	6.0	3.3	5.1	4.8	3.8
Social Fund expenditures	5.0	7.4	8.1	5.3	7.1	6.8	9.8	10.7	7.2	11.1	9.4	9.0
Pensions	4.4	6.8	7.3	4.8	6.4	6.1	9.2	9.7	6.6	10.2	8.7	8.2
Other benefits and spending	0.6	0.6	0.8	0.6	0.7	0.7	0.7	1.0	0.6	0.8	0.7	0.7
Interest	0.7	0.6	1.4	0.6	0.7	0.8	1.1	1.3	0.9	1.5	1.2	0.8
Purchases of other goods and services	9.3	9.4	13.8	8.1	11.2	10.5	7.8	10.7	9.9	14.7	11.0	8.3
Capital expenditure	4.2	5.5	5.5	5.3	4.7	5.2	7.6	12.5	8.5	10.1	9.6	8.0
Domestically financed capital expenditure	2.3	2.2	3.7	1.7	2.1	2.3	3.0	5.2	2.6	3.2	3.4	4.0
Foreign financed PIP loans	0.7	2.0	0.6	2.4	1.0	1.5	3.6	4.9	3.8	2.8	3.7	2.5
Foreign financed PIP grants	1.1	1.3	1.2	1.2	1.6	1.3	1.0	2.5	2.1	4.1	2.5	1.5
Net lending	0.3	-0.7	0.3	0.4	1.4	0.5	-0.6	0.1	1.7	1.9	1.0	0.0
KRDF (total spending)	…	…	…	1.4	6.1	2.3	0.0	0.0	0.0	0.0	0.0	0.0
Discrepancy	-0.6	0.1	1.3	2.3	-2.6	0.2	-0.5	0.0	0.0	0.4	0.0	0.0
Primary balance excluding grants	-1.1	-0.2	-7.0	-3.9	-18.0	-8.2	-1.5	-18.0	-16.1	-25.0	-16.2	-9.6
Primary balance	0.8	1.6	10.3	-2.4	-15.3	-2.9	0.5	-13.3	-13.2	-14.0	-10.8	-7.7
Overall balance	0.0	1.0	8.9	-3.0	-16.1	-3.7	-0.5	-14.5	-14.1	-15.5	-12.0	-8.5
Total financing	0.0	-1.0	-8.9	3.0	16.1	3.7	0.5	14.5	14.1	15.5	12.0	8.5
External financing	0.4	1.3	30.3	2.2	0.7	7.6	2.9	3.4	5.5	14.2	6.9	6.4
Domestic financing	-0.3	-2.3	-39.2	16.5	6.5	-1.5	-12.8	8.1	8.6	1.1	2.5	2.0
NBKR	0.1	0.8	-38.9	20.7	1.7	-1.0	-13.6	7.5	3.3	-1.6	-0.3	1.3
Commercial banks	-0.3	-3.2	-0.3	-4.3	4.5	-0.6	0.8	0.5	5.3	2.7	2.8	0.7
Nonbank	0.0	0.2	0.0	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Privatization	-0.1	0.0	0.0	0.0	0.1	0.0	0.4	0.0	-0.1	0.2	0.1	0.1
Use of KRDF investments abroad	0.0	0.0	0.0	-15.6	8.8	-2.4	10.1	3.0	0.0	0.0	2.5	0.0

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

Table 7. Kyrgyz Republic: State Government Finances, 2008–11

	2008	2009					2010					2011
		Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Year
	Act.	Act.	Act.	Act.	Act.	Act.	Prel. Act.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In millions of soms, unless indicated otherwise)											
Total revenue and grants	48,721	9,843	19,412	12,190	14,445	55,891	13,066	13,960	14,208	20,054	61,288	61,748
Total revenue	45,197	9,232	12,139	11,227	12,873	45,471	12,284	11,957	12,132	13,893	50,267	57,202
Current revenue	44,080	9,179	12,042	11,162	12,777	45,159	12,227	11,866	11,945	13,664	49,703	56,546
Tax revenue	35,925	7,293	9,382	9,328	10,094	36,098	10,108	8,816	8,934	9,825	37,683	44,255
Income tax	6,909	1,899	3,027	2,320	3,015	10,261	4,202	3,137	2,340	2,346	12,025	13,506
VAT	16,540	2,861	3,153	3,839	3,614	13,467	3,108	3,134	3,330	3,922	13,494	16,046
Excises	1,575	325	405	458	481	1,669	370	366	537	699	1,972	2,985
Customs	4,634	877	914	1,033	1,316	4,139	871	896	1,316	1,284	4,367	5,482
Land tax	666	171	169	320	257	917	199	144	199	194	736	847
Road tax and Emergency Fund	2,879	272	105	8	18	403	13	13	0	0	26	0
Retail sales tax	1,516	0	0	0	0	0	0	0	0	0	0	0
New turnover tax	…	476	992	1,186	1,280	3,933	1,100	811	1,071	1,122	4,105	4,177
Other	1,207	414	617	165	114	1,309	244	314	142	257	957	1,213
Nontax revenue	8,155	1,886	2,660	1,833	2,682	9,061	2,119	3,051	3,012	3,838	12,020	12,291
Capital revenue	1,117	54	97	65	96	312	57	91	187	230	564	656
Grants	3,524	610	7,273	964	1,572	10,419	782	2,003	2,076	6,161	11,021	4,546
Program grants	1,400	185	6,750	236	653	7,825	397	966	624	3,888	5,874	998
PIP grants	2,124	425	522	728	919	2,595	385	1,038	1,452	2,273	5,147	3,549
Total expenditure (incl. net lending)	49,236	9,947	16,312	27,034	18,497	71,789	13,252	19,980	23,535	27,196	83,962	81,230
Total expenditure	48,586	10,183	16,178	26,769	17,697	70,826	13,491	19,948	22,335	26,119	81,892	81,230
Current expenditure	40,772	8,420	13,874	11,131	14,940	48,365	10,545	14,702	16,374	20,462	62,083	62,254
Wages and Social Fund contributions	14,043	3,266	5,065	3,572	5,007	16,911	3,491	5,816	4,967	7,002	21,276	24,295
Transfers and subsidies	6,156	1,449	1,874	1,384	2,144	6,850	2,231	2,524	2,348	2,869	9,972	9,097
Transfers to Social Fund	1,722	464	539	697	709	2,410	1,378	1,344	1,499	1,524	5,745	7,331
Interest	1,408	207	604	372	428	1,612	415	527	623	829	2,394	1,934
Purchases of other goods and services	17,443	3,033	5,792	5,106	6,652	20,583	3,030	4,491	6,937	8,238	22,696	19,597
Capital expenditure (including PIP)	7,814	1,763	2,304	3,336	2,756	10,159	2,946	5,247	5,960	5,657	19,809	18,975
Domestically financed capital expenditure	4,297	707	1,537	1,071	1,267	4,582	1,164	2,167	1,826	1,804	6,962	9,460
Foreign financed PIP loans	1,393	630	244	1,537	570	2,982	1,396	2,042	2,682	1,581	7,701	5,967
Foreign financed PIP grants	2,124	425	522	728	919	2,595	385	1,038	1,452	2,273	5,147	3,549
Financial balance	134	-340	3,234	-14,579	-3,251	-14,936	-425	-5,988	-8,127	-6,065	-20,605	-19,482
Net lending	650	-236	134	265	800	962	-239	32	1,200	1,077	2,070	0
Transfer to the KRDF	0	0	0	12,302	0	12,302	0	0	0	0	0	0
Discrepancy	-787	-89	87	1,511	-2,142	-633	-127	0	0	127	0	0
Primary balance	105	14	3,792	-12,961	-5,765	-14,920	102	-5,493	-8,704	-6,186	-20,281	-17,548
Primary balance excluding grants	-3,419	-596	-3,481	-13,925	-7,338	-25,339	-680	-7,496	-10,779	-12,347	-31,302	-22,094
Overall balance	-1,303	-193	3,188	-13,333	-6,194	-16,531	-313	-6,020	-9,327	-7,015	-22,675	-19,482
Total financing	1,303	193	-3,188	13,333	6,194	16,531	313	6,020	9,327	7,015	22,675	19,482
External financing	705	407	12,694	1,369	420	14,890	1,135	1,432	3,862	7,931	14,361	15,208
Domestic financing	851	-217	-15,882	11,963	5,744	1,608	784	3,573	-4,283	-1,016	-943	4,074
NBKR	138	242	-16,283	13,315	3,520	794	-155	3,762	-6,036	-902	-3,331	3,131
Commercial banks	598	-524	421	-1,345	2,114	665	951	-189	1,753	-115	2,400	943
Nonbank	115	65	-20	-7	110	148	-12	0	0	0	-12	0
Use of KRDF resources	… .	…	…	…	…	…	-1,751	1,015	9,793	0	9,057	…
Privatization 1/	-253	3	0	0	30	34	145	0	-45	100	200	200

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

1/ Negative numbers mean unwinding of previous privatizations.

Table 8. Kyrgyz Republic: State Government Finances, 2008–11

	2008	2009					2010					2011
		Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Year
	Act.	Act.	Act.	Act.	Act.	Act.	Prel. Act.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In percent of GDP)											
Total revenue and grants	25.9	30.6	46.4	19.3	24.4	28.5	33.7	33.3	20.2	35.8	29.6	26.0
Total revenue	24.0	28.7	29.0	17.8	21.8	23.2	31.7	28.5	17.3	24.8	24.3	24.1
Current revenue	23.4	28.5	28.8	17.7	21.6	23.0	31.5	28.3	17.0	24.4	24.0	23.8
Tax revenue	19.1	22.6	22.4	14.8	17.1	18.4	26.0	21.0	12.7	17.5	18.2	18.6
Income tax	3.7	5.9	7.2	3.7	5.1	5.2	10.8	7.5	3.3	4.2	5.8	5.7
VAT	8.8	8.9	7.5	6.1	6.1	6.9	8.0	7.5	4.7	7.0	6.5	6.8
Excises	0.8	1.0	1.0	0.7	0.8	0.8	1.0	0.9	0.8	1.2	1.0	1.3
Customs	2.5	2.7	2.2	1.6	2.2	2.1	2.2	2.1	1.9	2.3	2.1	2.3
Land tax	0.4	0.5	0.4	0.5	0.4	0.5	0.5	0.3	0.3	0.3	0.4	0.4
Road tax and Emergency Fund	1.5	0.8	0.3	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Retail sales tax	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New turnover tax	…	1.5	2.4	1.9	2.2	2.0	2.8	1.9	1.5	2.0	2.0	1.8
Other	0.6	1.3	1.5	0.3	0.2	0.7	0.6	0.7	0.2	0.5	0.5	0.5
Nontax revenue	4.3	5.9	6.4	2.9	4.5	4.6	5.5	7.3	4.3	6.9	5.8	5.2
Capital revenue	0.6	0.2	0.2	0.1	0.2	0.2	0.1	0.2	0.3	0.4	0.3	0.3
Grants	1.9	1.9	17.4	1.5	2.7	5.3	2.0	4.8	3.0	11.0	5.3	1.9
Program grants	0.7	0.6	16.1	0.4	1.1	4.0	1.0	2.3	0.9	6.9	2.8	0.4
PIP grants	1.1	1.3	1.2	1.2	1.6	1.3	1.0	2.5	2.1	4.1	2.5	1.5
Total expenditure (incl. net lending)	26.2	30.9	39.0	42.8	31.3	36.6	34.2	47.6	33.5	48.6	40.5	34.2
Total expenditure	25.8	31.6	38.7	42.4	29.9	36.1	34.8	47.5	31.8	46.6	39.5	34.2
Current expenditure	21.7	26.1	33.2	17.6	25.3	24.6	27.2	35.0	23.3	36.5	30.0	26.2
Wages and Social Fund contributions	7.5	10.1	12.1	5.7	8.5	8.6	9.0	13.9	7.1	12.5	10.3	10.2
Transfers and subsidies	3.3	4.5	4.5	2.2	3.6	3.5	5.7	6.0	3.3	5.1	4.8	3.8
Transfers to Social Fund	0.9	1.4	1.3	1.1	1.2	1.2	3.6	3.2	2.1	2.7	2.8	3.1
Interest	0.7	0.6	1.4	0.6	0.7	0.8	1.1	1.3	0.9	1.5	1.2	0.8
Purchases of other goods and services	9.3	9.4	13.8	8.1	11.2	10.5	7.8	10.7	9.9	14.7	11.0	8.3
Capital expenditure (including PIP)	4.2	5.5	5.5	5.3	4.7	5.2	7.6	12.5	8.5	10.1	9.6	8.0
Domestically financed capital expenditures	2.3	2.2	3.7	1.7	2.1	2.3	3.0	5.2	2.6	3.2	3.4	4.0
Foreign financed PIP loans	0.7	2.0	0.6	2.4	1.0	1.5	3.6	4.9	3.8	2.8	3.7	2.5
Foreign financed PIP grants	1.1	1.3	1.2	1.2	1.6	1.3	1.0	2.5	2.1	4.1	2.5	1.5
Financial balance	0.1	-1.1	7.7	-23.1	-5.5	-7.6	-1.1	-14.3	-11.6	-10.8	-9.9	-8.2
Net lending	0.3	-0.7	0.3	0.4	1.4	0.5	-0.6	0.1	1.7	1.9	1.0	0.0
Transfer to the KRDF	…	0.0	0.0	19.5	0.0	6.3	…	…	…	…	…	…
Discrepancy	-0.4	-0.3	0.2	2.4	-3.6	-0.3	-0.3	0.0	0.0	0.2	0.0	…
Primary balance	0.1	0.0	9.1	-20.5	-9.7	-7.6	0.3	-13.1	-12.4	-11.0	-9.8	-7.4
Primary balance excluding grants	-1.8	-1.9	-8.3	-22.0	-12.4	-12.6	-1.8	-17.9	-15.3	-22.1	-15.1	-9.3
Overall balance	-0.3	-0.6	7.6	-21.1	-10.5	-8.1	-0.8	-14.3	-13.3	-12.5	-10.9	-8.2
Total financing	0.7	0.6	-7.6	21.1	10.5	8.4	0.8	14.3	13.3	12.5	10.9	8.2
External financing	0.4	1.3	30.3	2.2	0.7	7.6	2.9	3.4	5.5	14.2	6.9	6.4
Domestic financing	0.5	-0.7	-38.0	18.9	9.7	0.8	2.0	8.5	-6.1	-1.8	-0.5	1.7
NBKR	0.1	0.8	-38.9	21.1	6.0	0.4	-0.4	9.0	-8.6	-1.6	-1.6	1.3
Commercial banks	0.3	-1.6	1.0	-2.1	3.6	0.3	2.5	-0.5	2.5	-0.2	1.2	0.4
Nonbank	0.1	0.2	0.0	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Privatization	-0.1	0.0	0.0	0.0	0.1	0.0	0.4	0.0	-0.1	0.2	0.1	0.1
Use of KRDF resources	…	…	…	…	…	…	-4.5	2.4	13.9	0.0	4.4	…

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

Table 9. Kyrgyz Republic: Social Fund Operations, 2008–11

	2008	2009					2010					2011
		Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Year
	Act.	Act.	Act.	Act.	Act.	Act.	Prel. Act.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In millions of soms)											
Total revenue	9,319	2,343	2,927	2,711	3,198	11,178	2,621	3,087	2,978	2,945	11,631	13,266
Total contribution	9,059	2,298	2,834	2,582	3,094	10,808	2,551	3,023	2,914	2,888	11,376	12,966
Contribution from government	1,815	453	703	455	651	2,261	428	963	320	965	2,676	3,079
Contribution from non-government	7,244	1,844	2,132	2,127	2,444	8,547	2,122	2,060	2,594	1,923	8,700	9,888
Other revenue	260	45	93	129	103	370	70	64	64	57	255	300
Total expenditure	9,359	2,397	3,379	3,371	4,214	13,361	3,819	4,506	5,034	6,197	19,556	21,312
Pension Fund	8,799	2,352	3,185	3,167	3,941	12,644	3,729	4,253	4,819	5,905	18,706	20,341
Medical Insurance Fund (incl. old Funds)	560	45	194	185	251	675	90	228	190	245	753	864
Workers' Health Recovery Fund	…	0	0	20	22	42	0	25	25	47	97	107
Financial balance	-40	-54	-452	-661	-1,016	-2,183	-1,198	-1,419	-2,056	-3,252	-7,925	-8,046
Budgetary transfer	1,704	464	539	697	694	2,395	1,378	1,344	1,499	1,524	5,745	7,331
Discrepancy	-341	150	0	0	0	150	-76	0	0	0	0	0
Overall balance	1,323	561	87	37	-322	362	104	-76	-557	-1,728	-2,181	-714
Financing	-1,323	-594	-400	246	342	-407	-104	76	557	1,728	2,181	714
Commercial bank deposits	-1,173	-517	-536	180	327	-547	-104	76	557	1,728	2,181	714
Government bonds	-149	-77	137	66	15	140	0	0	0	0	0	0
	(In percent of GDP)											
Total revenue	5.0	7.3	7.0	4.3	5.4	5.7	6.8	7.4	4.2	5.3	5.6	5.6
Total contribution	4.8	7.1	6.8	4.1	5.2	5.5	6.6	7.2	4.1	5.2	5.5	5.5
Other revenue	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Total expenditure	5.0	7.4	8.1	5.3	7.1	6.8	9.8	10.7	7.2	11.1	9.4	9.0
Pension Fund	4.7	7.3	7.6	5.0	6.7	6.4	9.6	10.1	6.9	10.5	9.0	8.6
Medical Insurance Fund (incl. old Funds)	0.3	0.1	0.5	0.3	0.5	0.4	0.2	0.6	0.3	0.5	0.4	0.4
Workers' Health Recovery Fund	…	0.1	0.5	0.3	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.0
Financial balance	0.0	-0.2	-1.1	-1.0	-1.7	-1.1	-3.1	-3.4	-2.9	-5.8	-3.8	-3.4
Budgetary transfer	0.9	1.4	1.3	1.1	1.2	1.2	3.6	3.2	2.1	2.7	2.8	3.1
Discrepancy	-0.2	0.5	0.0	0.0	0.0	0.1	-0.2	0.0	0.0	0.0	0.0	0.0
Overall balance	0.7	1.7	0.2	0.1	-0.5	0.2	0.3	-0.2	-0.8	-3.1	-1.1	-0.3
Financing	-0.7	-1.8	-1.0	0.4	0.6	-0.2	-0.3	0.2	0.8	3.1	1.1	0.3
Commercial bank deposits	-0.6	-1.6	-1.3	0.3	0.6	-0.3	-0.3	0.2	0.8	3.1	1.1	0.3
Government bonds	-0.1	-0.2	0.3	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0

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

Table 10. Kyrgyz Republic: Indicators of Capacity to Repay the Fund, 2009-16 1/

	2009	2010	2011	2012	2013	2014	2015	2016
	Actual	Projections						
Fund obligations based on existing credit (in millions of SDRs)								
Principal	16.9	14.1	15.3	13.5	11.4	13.3	11.0	9.6
Charges and interest	0.5	0.0	-	0.2	0.1	0.1	0.1	0.1
Fund obligations based on existing and prospective credit (in millions of SDRs)								
Principal	16.9	14.1	15.3	13.5	11.4	13.3	11.0	14.0
Charges and interest	0.5	0.00	0.00	0.23	0.20	0.17	0.14	0.11
Total obligations based on existing and prospective credit								
In millions of SDRs	17.4	14.1	15.3	13.7	11.6	13.5	11.2	14.1
In millions of U.S. dollars	26.8	21.2	22.8	20.4	17.3	20.2	16.7	21.1
In percent of Gross International Reserves	1.7	1.3	1.2	1.0	0.8	0.9	0.7	0.9
In percent of exports of goods and services	1.0	0.7	0.7	0.5	0.4	0.4	0.3	0.4
In percent of debt service 2/	31.6	21.0	8.1	22.5	17.3	17.6	14.2	14.6
In percent of GDP	0.6	0.5	0.5	0.4	0.3	0.3	0.2	0.3
In percent of quota	19.6	15.9	17.2	15.4	13.0	15.2	12.6	15.9
Outstanding Fund credit 2/								
In millions of SDRs	106.6	114.7	99.4	85.9	74.6	61.2	50.2	36.2
In billions of U.S. dollars	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
In percent of Gross International Reserves	10.4	10.2	8.1	6.3	5.2	4.0	3.3	2.2
In percent of exports of goods and services	5.8	6.0	4.4	3.2	2.4	1.8	1.4	1.0
In percent of debt service 2/	193.7	170.6	52.8	141.3	111.8	79.8	63.9	37.5
In percent of GDP	3.6	3.9	3.1	2.4	1.9	1.4	1.1	0.7
In percent of quota	120.1	129.2	111.9	96.8	84.0	68.9	56.5	40.7
Net use of Fund credit (in millions of SDRs)	(0.2)	8.1	(15.3)	(13.5)	(11.4)	(13.3)	(11.0)	(14.0)
Disbursements	16.7	22.2	-	-	-	-	-	-
Repayments and Repurchases	16.9	14.1	15.3	13.5	11.4	13.3	11.0	14.0
Memorandum items:								
Nominal GDP (in millions of U.S. dollars)	4,570	4,444	4,763	5,318	5,893	6,547	7,071	7,544
Exports of goods and services (in millions of U.S. dollars)	2,821	2,874	3,349	4,061	4,646	5,034	5,259	5,353
Gross International Reserves (in millions of U.S. dollars)	1,584	1,697	1,827	2,046	2,145	2,311	2,278	2,458
Debt service (in millions of U.S. dollars) 2/	84.9	101.1	280.4	90.7	99.6	114.7	117.4	144.3
Quota (millions of SDRs)	88.8	88.8	88.8	88.8	88.8	88.8	88.8	88.8

Sources: IMF staff estimates and projections.

1/ Assumes one disbursement under the RCF facility of 25 percent of quota (SDR 22.2 million) in September 2010. Projections of interest payments incorporate the temporary interest relief initiative and interest rate structure under the new architecture of LIC facilities and financing.

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

Table 11. Kyrgyz Republic: External Budgetary Support for 2010
(Grants and Loans)
(In millions of U.S. dollars)

	2010
Total 1/	253
International Monetary Fund	34
World Bank 2/	35
Asian Development Bank	40
European Union	15
Other multilateral	120
Bilateral partners	10

Source: Kyrgyz authorities; and Fund staff estimates.

1/ The budget is expected to receive an additional $51 million in 2010 in earlier commitments.

2/ This is part of the proposed Emergency Recovery Operation scheduled for Board on September 30, 2010.

ATTACHMENT 1

LETTER OF INTENT

Bishkek, August 26, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431
USA

Dear Mr. Strauss-Kahn:

We write this letter to request financial assistance from the IMF at this difficult time in our country's history.

The recent ethnic conflict and the political legacy of the previous regime took a heavy toll on the Kyrgyz economy. As a consequence of the higher needs arising from the shocks faced in the second quarter of 2010, and despite our attempts to prevent the fiscal deficit from being excessively high, we face significant balance of payments and budgetary needs.

Against this background, we request access of 25 percent of quota (SDR 22.2 million, about US$34 million) through the rapid credit facility (RCF). We also request that the assistance under the RCF be channeled to the budget. We expect IMF financial support to have a catalytic effect in helping materialize pledges provided by the international donor community support in the context of the recently concluded donor conference.

The attached Memorandum of Economic and Financial Policies (MEFP) describes our policies for 2010 that we understand will form the basis for IMF support.

The government of Kyrgyz republic believes that the policies set forth in the attached MEFP will achieve the objectives of the program, but it will take any additional measures that may become appropriate for this purpose. The government will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

To benchmark our progress, we expect to meet a set of indicative targets for end-September and end-December 2010 provided in the attached table and detailed in the attached Technical Memorandum of Understanding (TMU). By meeting these indicative targets we would aim to build a track record of good performance which we hope would strengthen our case for a longer term successor arrangement, and which we expect the new government to begin negotiating with IMF staff later this year.

We hereby grant our permission for the publication on the IMF's website of the staff report, the Memorandum of Economic and Financial Policies and this Letter of Intent.

Sincerely,

/s/
Roza Otunbayeva
President of the Kyrgyz Republic

/s/
Chorobek Imashev
Minister of Finance
of the Kyrgyz Republic

/s/
Baktygul Jeenbaeva
Acting Governor of the National Bank of the
Kyrgyz Republic

Table 1. Kyrgyz Republic: Indicative Targets

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

	2009	2010	2010
	December	September	December
	Actual	Indicative Targets	Indicative Targets
1. Floor on net international reserves of the NBKR in convertible currencies (eop stock, in millions of U.S. dollars) 1/ 2/	1,242	1,242	1,422
2. Ceiling on net domestic assets of the NBKR (eop stock) 1/ 2/	-1,302	-291	-1,206
3. Ceiling on cumulative overall deficit of the general government	7,350	16,189	24,855
4. Ceiling on contracting or guaranteeing by the state government, NBKR, or any other agency acting on behalf of the state government, of new nonconcessional external debt with maturity of less than one year (continuous, in millions of U.S. dollars) 3/	0	0	0
5. Ceiling on contracting or guaranteeing by the state government, NBKR, or any other agency acting on behalf of the state overnment, of new nonconcessional external debt with maturity of one year or more (continuous, millions of U.S. dollars) 3/	0	0	0
6. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0

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

1/ As defined in the TMU.

2/ The target excludes medium- and long-term central bank liabilities (i.e., the loan by the Eximbank of Turkey and the EBRD/IDA enterprise loan channeled through the NBKR).

3/ External debt contracted or guaranteed other than with a grant element equivalent to 35 percent or more, calculated using a discount rate based on the OECD commercial interest reference rates. Excludes borrowing from the IMF.

Table 2. Kyrgyz Republic: Prior Actions

Measure	Responsible Agency
Issue a closed tender and terms of reference to companies shortlisted by the EBRD to conduct a forensic audit and valuation of shares of the AUB.	NBKR
Sign an updated February 6, 2010 Memorandum of Understanding on management of foreign exchange reserves and the channeling of IMF budget support to the budget.	NBKR, Ministry of Finance

ATTACHMENT 2

KYRGYZ REPUBLIC: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES (MEFP) FOR SEPTEMBER-DECEMBER 2010

This memorandum complements the letter of intent and sets out the economic and financial policies of the current caretaker administration of the Kyrgyz Republic for the period September–December 2010. These policies are the basis for the IMF-supported Rapid Credit Facility (RCF).

A. Recent political developments

1. In early April 2010, there were political demonstrations in various cities against the previous regime because of allegations of authoritarianism, corruption and taking social policy decisions without adequate public consultation. Following popular protests, the President was removed and replaced by an interim government, headed by a coalition of opposition political and civic leaders. The events led to loss of life and injuries to persons, destruction of private and public property, a weakening of private sector confidence, and economic and fiscal pressures.

2. In June 2010, ethnic tensions in the south of the country erupted in violent clashes over a period of three days in the cities of Jalalabad and Osh. These were perhaps the most catastrophic events in our country's history—hundreds of people lost their lives and were injured, 75,000 fled the violence to neighboring Uzbekistan and a further 300,000 were displaced inside the country, though most of the refugees and displaced have returned. Conditions in the south of the country remain dire and highly volatile with continued inter-ethnic distrust and low-intensity conflict, lack of adequate security and deep scars of the June violence.

3. Achieving social and political stability and maintaining security after these shocks is necessary for economic and social recovery, and in our view would require substantial public resources. A joint donor economic assessment, which included contributions from IMF staff, pointed to a significant increase in the need for rehabilitation and resettlement of the affected, strengthening security, reconstructing infrastructure and, providing housing and livelihood support, while paying attention to inter-ethnic equity—without which there would likely be an aggravation of tensions and violence in future.

B. Impacts on the economy and policy response

4. The April and June shocks are expected to take a serious toll on the economy. We expect the nongold economy to shrink by 4–5 percent in 2010, with agriculture, which accounts for about a quarter of the economy, expected to contract by 8 percent. Border closures and domestic insecurity have affected services, including trade, which is also expected to fall by 12–13 percent. Investor confidence has been badly shaken. On the

positive side, strong gold output, construction of Kambarata-II hydro power station and favorable water reservoir levels that improve the prospects for electricity generation, are likely to mitigate the adverse effects on output.

5. The external sector will also suffer, with the current account expected to turn to a deficit of 5.4 percent of GDP, compared to a surplus of about 2 percent in 2009. Exports of goods and services, including tourism, will decline sharply, though, while we expect underlying imports to also fall as the economy contracts, reconstruction activities and the implementation of a large FDI project at the Kumtor gold mining company, will support imports of raw materials and machinery, while fuel imports at a higher export duty imposed by Russia will increase the value of oil product imports. A large increase in the trade deficit will be somewhat mitigated by robust growth in remittances, mainly from Russia.

6. The crisis has increased fiscal pressures and will lead to a significant widening of the budget deficit in 2010. The overall deficit will increase from 3.7 percent in 2009 to 12 percent in 2010, largely on account of the need to increase crisis-related spending. Rehabilitation and resettlement costs will raise expenditures under goods and services, while reconstruction activities, especially those to find a solution to near term housing problem in the south, would result in a large increase in capital spending in 2010 and beyond. To strengthen internal security we expect to substantially increase spending on security related personnel through increasing recruitment and salaries. Banking problems (as described in detail below) would also be costly for the budget, either through a loss of deposits of government and government entities, or the need for bank recapitalization.

7. Revenues will likely suffer because of the crisis, as the economy shrinks and trade is affected by border closures, but we have taken steps to minimize slippages. While we had to grant tax relief to businesses that were affected by the crisis in the south, we have in general not used tax relief as a policy tool to support business activity. So far in the year, tax revenues have performed better than at the same time last year–mainly because of better than expected output at the Kumtor gold company and rising international gold prices. While unable to change tax policy at this time, we plan to strengthen tax revenue administration—through a reduction in excise tax categories and governance measures to increase the share of official custom revenues on goods imported from China—and also expect nontax revenues—including revenues derived from confiscation of money and sale of assets recovered from those associated with the previous regime—to provide some relief.

8. A significant part of the budgetary needs would have to be financed through external support. To avoid an unsustainable increase in our external indebtedness and interest burden, we have requested the donors to provide assistance either in the form of grants, or highly concessional loans. In this vein, while we welcome donor support for the rehabilitation and recovery effort, we will continue to also use our own resources—primarily saved bilateral assistance received from Russia in 2009—to finance the budget.

9. The political crisis in April and the subsequent events in the south in June took a direct toll on the banking system. Banks associated with the previous regime suffered immediate losses of nonresident deposits and liquidity. The loan portfolio of Asia Universal Bank (AUB), the largest and systemically important bank, has been affected by connected and insider lending, and loan quality has deteriorated, particularly following the events in the south where the bank had significant exposure. We have also discovered since the change of government, that AUB is insolvent, and under severe liquidity stress because of alleged securities fraud. The situation has been further complicated by a recent court decision to hand over AUB assets that were acquired from Kyrgyz Promstroi Bank in 2007, back to the original owners. This decision is now under consideration in the courts.

10. To protect the health of the banking system, we took immediate measures to prevent further deterioration. Six banks were put under temporary administration—subsequently reduced to four—and AUB was placed under conservatorship and its shares were nationalized, with its operations restricted significantly. With the bank running out of liquidity and risks of a systemic deposit run elevated, we decided in mid-August to restructure it by spinning off a new bank with the good assets and senior liabilities, and leaving impaired assets, connected loans and some government liabilities with the bad bank (AUB). The process of restructuring is ongoing. With the need to capitalize the new bank and the likelihood of incurring losses on government deposits at the bad bank, fiscal costs of the AUB problem are likely to be high. We are grateful to the IMF for providing timely technical assistance on bank restructuring and resolution.

11. The crisis has led to reduction in system deposits and credit, and added to monetary policy challenges. The uncertainties associated with political crisis and the resulting insecurity, as well as banking sector troubles, have driven people to increase their cash holdings. While deposits have been shrinking since the crisis, there has been no generalized bank run. The crisis has also impacted credit to the private sector—the weak economic prospects mean low demand for credit, while banking troubles as well as nervousness about credit risk restrains the provision of credit by the financial sector.

12. Our government, which came to power following the popular overthrow of a regime that was perceived as corrupt, sees achieving high standards of governance and transparency as one of its primary responsibilities to the people of the Republic. Not only are we focused on improving and strengthening our laws and enforcement mechanisms against corruption and abuse of power, we have strengthened our constitution to introduce checks and balance on the executive and are committed to pursuing those responsible for corruption and improprieties in the past. In this vein, we have already brought legal cases against, and seized the assets of those involved in criminal activities. We have taken steps to strengthen key public institutions—we have dissolved the Central Agency for Development Investments and Institutions (CADII) and returned the main economic policy functions to the Ministry of Finance, the Ministry of Economic Regulation and the central bank. Many national assets

that had been hastily and non-transparently privatized by the previous regime have been nationalized and are awaiting privatization through a transparent and open bidding process.

C. Policy intentions

13. The overall policy objective of the current caretaker government is to ensure a smooth transition to a new political system, and a new government following the elections in October, while maintaining macroeconomic stability and, minimizing the social and economic damage of the crisis.

14. We acknowledge the risks to macroeconomic stability and debt sustainability associated with the large planned expansion of the fiscal deficit envisaged this year. While the dire need to respond adequately to the crisis would prevent us from significantly moderating spending, we undertake that we will keep the overall deficit within the parameters agreed with IMF staff under the Rapid Credit Facility (RCF). To mitigate the medium term implications of the fiscal expansion, we will avoid committing to further entitlement spending, such as wages and pensions. Should it not be feasible, or effective, to incur large spending this year because of the limited time remaining till the end of the year, we may delay some of the spending till next year, if appropriate. Because of a shortfall in donor financing compared to the estimates presented in the Joint Economic Assessment Report, we have reduced low priority spending, namely, capital expenditures on various small projects not related to the crisis in the south. In case of further shortfall in external financing in the period ahead, we will reduce purchases of goods and services.

15. We are committed to macroeconomic stability and low inflation. To this end we will remain vigilant to the challenges monetary and exchange rate policy would face this year. On the one hand there is a need to support the post-crisis economic recovery while on the other, the significant fiscal expansion could also increase monetary aggregates leading to exchange rate and inflationary pressures later in the year. The National Bank of Kyrgyz Republic (NBKR) will mop up excess liquidity by sterilizing through NBKR notes. If continued political and security uncertainty or fiscal expansion lead to sustained pressures in the foreign exchange market, we will allow the exchange rate to adjust flexibly, while smoothing any excessive short-term volatility through interventions in the market.

16. We will strive to swiftly and decisively address the problems in the financial sector—in AUB and in other banks under temporary administration. We plan to move promptly to complete the restructuring of AUB. An important next step is to obtain a fuller picture of the balance sheet of the bank through a forensic audit and valuation of shares, and we are soliciting the help of EBRD to choose an appropriate firm and defray the costs. We will make the issuance of a closed tender and terms of reference to companies shortlisted by the EBRD as a prior action for the RCF disbursement (see Table 2). We have asked for donor support in hiring a legal team to help us through the legal hurdles in bank resolution and to hire a professional bank management team, if needed. We are also developing an action plan

to exit from the temporary administration in other banks and expect to have it completed by end-September.

17. We plan to continue taking concrete steps to improve governance safeguards and transparency.

a. As mentioned above, we will initiate a forensic audit and valuation of assets of AUB to uncover the improprieties that led to the problems in the bank and will take the appropriate punitive action, in accordance with the existing legislation, against those responsible.

b. Most of the resources of the now defunct Kyrgyz Republic Development Fund, currently under liquidation, were successfully repatriated from overseas just prior to the change of government—made possible because of IMF conditionality under the ESF program. We are committed to undertaking a forensic audit of the KRDF to ensure the bilateral resources the country received in 2009 are properly accounted for and to take appropriate legal action if they were misappropriated. We are currently seeking donor help in identifying and obtaining financing for an audit firm.

c. To improve the confidence of domestic stakeholders and external partners in the public expenditure process in the country, we will particularly focus on the quality and accountability of the public resources spent. As we also mentioned at the Donor Conference held in Bishkek on July 27, 2010, the current government is committed to working closely with the external partners, ensuring transparent and open use of the donor resources and strengthening public financial management. We are in the process of setting up a committee comprising representatives of government and civil society to provide oversight of public and donor spending in the south.

18. The recent formation of the Russia-Kazakhstan-Belarus customs union has created uncertainties for the country. We are currently studying how this customs union affects the Kyrgyz Republic, and once a fuller picture on the pros and cons is available, we will decide whether to join the union or not. Kyrgyz Republic is a member of the WTO and any agreements on trading arrangements in the future would have to be consistent with our commitments under WTO.

19. Complications arose in implementing a debt forgiveness agreement we signed with the Russian Federation in 2009. While the Kyrgyz government felt it had abided by the agreement, we were informed by our Russian counterparts that this was not their impression. We are now seeking a quick resolution to the dispute and have started negotiations with the Russian Federation in this regard.

D. Program issues

20. To benchmark our progress, we expect to meet a set of indicative targets for end-September and end-December 2010, including indicative ceilings on the central government's fiscal deficit and, the central bank's net domestic assets and an indicative floor on its net international reserves within the limits specified in Table 1 attached to this letter and described in more detail in the attached Technical Memorandum of Understanding (TMU). By meeting these indicative targets we would aim to build a track record of good performance which we hope would strengthen our case for a longer term successor arrangement, and which we expect the new government to begin negotiating with IMF staff later this year.

21. To enhance safeguards, we confirm that the NBKR remains the exclusive authority in charge of foreign exchange reserves. We also agree to the approval of the updated February 6, 2010 Memorandum of Understanding between the NBKR and the Ministry of Finance—covering management of foreign exchange reserves and the channeling of IMF budget support to the latter—as a prior action for the RCF disbursement (see Table 2).

ATTACHMENT 3

KYRGYZ REPUBLIC: TECHNICAL MEMORANDUM OF UNDERSTANDING

I. INTRODUCTION

1. This memorandum describes the definitions of the quantitative indicative targets for the economic program of the Kyrgyz authorities during the period September 15, 2010–December 31, 2010 to be supported under the Rapid Credit Facility (RCF). These indicators, presented in Table 1 of the attached Letter of Intent dated August 26, 2010 reflect the understandings reached between the authorities of the Kyrgyz Republic and the staff of the IMF.

2. The program exchange rate of the KGS to the U.S. dollar is set at KGS 38.2101 = US$1. The corresponding cross exchange rates and program gold price for the duration of the program are provided in Table 2.

3. Central government and republican government are synonymous in this memorandum. The State budget comprises central and local government budgets. The general government budget includes (effective of September 1, 2009) the State, Social Fund and the Development Fund (hereinafter, KRDF) budgets.

4. Quantitative indicative targets have been set for end-September, and end-December 2010. Indicative targets for new nonconcessional external debt are continuous.

II. INDICATIVE TARGETS

A. Floor on net international reserves of the National Bank of the Kyrgyz Republic (NBKR) in convertible currencies[1]

5. 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 international reserve assets and total international reserve liabilities of the NBKR in convertible currencies.

6. Total international reserve assets of the NBKR are defined as the NBKR holdings of monetary gold, holdings of SDRs, reserve position in the IMF, and any holdings of convertible foreign currencies in cash or with foreign banks, and debt instruments issued by nonresidents that are liquid. Accrued interest on deposits, loans and debt securities are

[1] Convertible currencies are defined as currencies that are freely usable for settlements of international transactions.

included in the reserve assets and liabilities, correspondingly. Reserve assets pledged as collateral or otherwise encumbered, capital subscriptions in foreign financial institutions, and illiquid assets of the NBKR are excluded. Also excluded are net forward positions, defined as the difference between the face value of foreign currency denominated NBKR off-balance sheet claims on nonresidents and foreign currency obligations to both residents and nonresidents. Total international reserve liabilities of the NBKR in convertible currencies are defined as the sum of Kyrgyz Republic's outstanding liabilities to the IMF and other convertible currency liabilities to nonresidents with an original maturity of up to and including one year. Thus defined, the NIR is not affected when foreign assets are received by the NBKR through the foreign currency swaps with resident financial institutions, as both the total international reserve assets and liabilities rise. Total international reserves and NIR decline with the provision of the foreign assets by the NBKR through the foreign currency swaps with the resident financial institutions[2]. For program monitoring purposes, total international reserve assets and liabilities will be valued at the program exchange rates as described in paragraph 2 above. Thus calculated, the stock of net international reserves in convertible currencies amounted to US$1,242 million at December 31, 2009.

7. As under the latest accounting guidelines (BPM6), NIR increased with the allocation of SDR in August, 2009, which is treated as a long-term foreign currency liability of the Kyrgyz Republic to the SDR Department of the IMF, instead of a debt liability or shares and equity, as in the Monetary and Financial Statistics Manual (MFSM). This allocation has no impact on net foreign assets, because both gross foreign assets and long-term liabilities increase.

8. The NBKR's net foreign assets consist of net international reserve assets plus other net foreign assets, including the medium- and long-term foreign obligations of the NBKR, other net claims on CIS countries, reserve assets pledged as collateral or otherwise encumbered, net forward positions, capital subscriptions in foreign financial institutions, and illiquid assets. For program monitoring purposes, the other net foreign assets will also be valued at the program exchange rates.

9. The floor on net international reserves of the NBKR will be adjusted upward/downward to the full extent of any excess/shortfall in program grants and program loans as given in Table 1 and upward/downward to the full extent that amortization and interest payments of public external debt is less/more than the amortization and interest payments given in Table 1.

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

B. Ceiling on the net domestic assets of the NBKR

10. Net domestic assets of the NBKR are defined as reserve money of the NBKR (defined below), minus the NBKR's net foreign assets as defined above, minus the counterpart of the loan by the Eximbank of Turkey and the counterpart of the EBRD and IDA enterprise loans. Items in foreign currencies will be valued at the program exchange rates.

NDA=RM–NFA–Turkish Loan–EBRD-IDA Enterprise Loan

11. 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 minus KGS 1,302 million on December 31, 2009.

12. The ceiling on net domestic assets of the NBKR will be adjusted downward/upward to the full extent of any excess/shortfall in program grants and program loans as given in table 1 and downward/upward to the full extent that amortization and interest payments of public external debt is more/less than the programmed amortization and interest payments given in Table 1.

C. Ceiling on the cumulative overall cash deficit of the general government

13. The overall cash deficit of the general government will be measured from the financing side (below the line) at current exchange rates and will be defined as the sum of: (a) the change in the stock of net claims of the domestic banking system and nonfinancial institutions and households on the general government; (b) the change in the stock of net claims of the foreign governments, banking system and nonfinancial institutions and households on the general government; (c) net privatization receipts, i.e. any new sales net of purchases of shares; (d) net foreign loans disbursed to the general government for budgetary support, including from the IMF; (e) net foreign loans disbursed to the general government for project financing. The indicative targets for the fiscal balance are calculated on the projected KGS/U.S. dollar average exchange rate of 46.6. Reporting and adjustments, as defined in paragraph 14, will be made using current exchange rates.

14. The change in the stock of net claims of the domestic banking system on the general government is defined as the change in the stock of the banking system claims on the general government, less the change in the stock of all deposits of the general government with the banking system. The claims of the banking system on the general government include: (a) bank loans to the general government; (b) any securities issued by the general government

and held by domestic banks, with the exception of those issued in relation with bank rescue operations; and (c) overdrafts on the current accounts of the general government with banks.

Table 1. Projected Budget Support and Amortization
(In millions of U.S. dollars)

	2010	
	Q3	Q4
Program grants	13.1	81.4
Program loans	33.0	147.5
Amortization of public external debt	8.3	14.5
Interest payments	16.7	5.3

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

15. In connection with the contracting or guaranteeing of external debt by the government of the Kyrgyz Republic, the NBKR, or any other agency acting on behalf of the government of the Kyrgyz Republic, "debt" is understood to have the meaning set out in Executive Board Decision No. 12274, Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)).[3] For program purposes, external debt is defined based on the residency criterion.

[3] Debt is understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms, the primary ones being as follows: (a) 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); (b) 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 (c) 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.

16. External debt ceilings apply to (a) the contracting or guaranteeing of new nonconcessional short term external debt (i.e. external debt with an original maturity of less than one year and grant element less that 35 percent[4], except normal import-related credits and NBKR reserve liabilities); and (b) contracting or guaranteeing of nonconcessional medium- and long-term external debt (i.e., external debt with an original maturity of one year or more and with grant element of less that 35 percent). Disbursements by the IMF 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. The limit on the contracting or guaranteeing of medium- and long-term nonconcessional external debt is also zero and on a continuous basis, as specified in Table 1 of the economic program of the authorities.

17. For the purposes of the ceiling on contracting and guaranteeing new nonconcessional external debt, any other agency acting on behalf of the government will in particular include all nonfinancial public enterprises (enterprises and agencies, excluding public banks in which the government holds a controlling stake—typically owns more than 50 percent of the shares, but which are not consolidated in the budget).[5]

18. For program purposes, the guarantee of a debt arises from any explicit legal obligation of the government of the Kyrgyz Republic, the NBKR, or any other agency acting on behalf of the government of the Kyrgyz Republic to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or from any implicit legal or contractual obligation of the government of the Kyrgyz Republic, the NBKR, or any other

[4] The grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more). The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

[5] Government control of an entity can be established based on the following criteria: (i) ownership of the majority of the voting interest; (ii) control of the board or other governing body; (iii) control of the appointment and removal of key personnel; (iv) control of key committees of the entity; (v) golden shares and options; (vi) regulation and control; (vii) control by a dominant public sector customer or group of public sector customers; and (viii) control attached to borrowing from the government.

agency acting on behalf of the government of the Kyrgyz Republic to finance partially or in full any a shortfall incurred by the debtor.

E. Ceiling on accumulation of new external payments arrears

19. External payment 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 government of the Kyrgyz Republic, or the NBKR, or any agency acting on behalf of the government of the Kyrgyz Republic, 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 government of the Kyrgyz Republic. The ceiling on new external payment arrears shall apply on a continuous basis.

III. Reporting Requirements

20. The government and the NBKR will provide the IMF with the necessary economic and financial statistical data to monitor economic developments and the indicative targets. In particular, the government and the NBKR will provide the following specific information:[6]

A. The balance sheet of the NBKR

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

B. Monetary survey

22. Monthly banking system data, in the form of monetary surveys of the banking sector and other depository corporations, will be reported to the IMF by the NBKR within 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

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[6] Any correction or revisions to data previously reported should be clearly indicated and documented along with the reasons for revision.

liabilities, net credit from the banking system to the general government disaggregated by the state government, the social fund and the KRDF, financing provided to the rest of the economy, other items net, and broad money. The monetary survey will be provided using both program and actual exchange rates.

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

C. International reserves and key financial indicators

24. 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). The NBKR will also provide data on net foreign financing flows, including disbursements of program loans and grants, amortization, interest payments on external debt, interest income on reserves, other direct foreign currency payments by the Government and the NBKR. In addition, weekly reports should be sent to the IMF on (a) nominal exchange rates (including the official and interbank exchange rates), foreign exchange interbank market turnover, and the volume of NBKR foreign exchange sales and purchases in the domestic interbank market and with other parties, on a daily basis; and (b) treasury bill yields and the amount of treasury bill sales and redemptions on a weekly basis every Monday. On the 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, nonperforming loans to total loans, and return on equity, as well as data on bank deposit and lending rates by maturity and ownership.

D. External debt

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

E. Budgetary and extra budgetary data

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

F. Balance of payments data

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

G. Other general economic information

28. The National Statistics Committee will notify the IMF of the monthly Consumer Price Index by category by the 15th business day of the following month, and convey monthly GDP estimates within 30 days of the end of each month.

Table 2. Program Cross Exchange Rates and Gold Price

Abbreviation	Currency Name	Currency/US$	US$/Currency
AUD	Australian Dollar	0.6329	1.5800
CAD	Canadian Dollar	0.7823	1.2783
CHF	Swiss Franc	0.8539	1.1711
CNY	Chinese Yuan	6.8488	0.1460
EUR	Euro	0.7940	1.2595
GBP	UK pound sterling	0.6392	1.5645
JPY	Japanese Yen	93.9908	0.0106
KZT	Kazakh Tenge	119.7809	0.0083
RUR	Russian Ruble	27.0591	0.0370
SDR	SDR	0.6700	1.4925
XAU	Gold ($/troy ounce)	692.5000	…

Appendix

Kyrgyz Republic: Debt Sustainability (DSA)—Update

In view of the Kyrgyz Republic's request for access to Fund resources under the Rapid Credit Facility, Fund staff has updated Kyrgyz Republic's debt sustainability assessment.

1. **The previous DSA presented to the Executive Board (see EBS/09/68, May 11, 2009) found that the Kyrgyz Republic faced a moderate risk of debt distress.** The current assessment updates that joint Fund/World Bank analysis. It incorporates the planned large fiscal expansion as part of the authorities' crisis response in the aftermath of the April and June 2010 events.[1] Additionally, it includes the projected use of Fund resources (about US$34 million or SDR 22.2 million) as well as the planned large scale investments in the energy sector that are to be financed primarily through external borrowing on concessional terms (about US$550 million over the next three years).[2] Debt stocks for 2009 have been updated. Finally, the macroeconomic assumptions underlying the DSA have also been revised, mainly to reflect the higher imports (linked to investments) over the medium term, and the long-term impact of the global crisis on remittances levels.

2. **Staff is of the view that the Kyrgyz Republic continues to face a moderate risk of debt distress.** While debt sustainability ratios will deteriorate in the near term due to the expected significant increase in borrowing (Figure 1), the debt outlook is not expected to deteriorate significantly in the longer term given the preexisting borrowing space. While one of the key debt ratios (PV of external debt to GDP) is breached under the baseline scenario starting in 2010, the breach is temporary (as the ratio falls below the 40 percent threshold after 2017) and is not large (it peaks at 48 percent of GDP). Furthermore, when workers' remittances are included in the determination of indicative debt thresholds, all debt ratios are below the modified thresholds (Figure 2).[3] The use of Fund resources under the RCF will have a negligible impact on the debt ratios. The results of the stress tests continue to show a vulnerability to a combination of exogenous shocks. This warrants a prudent approach to the contracting of new external debt, focusing on concessional financing to support the country's large development needs.

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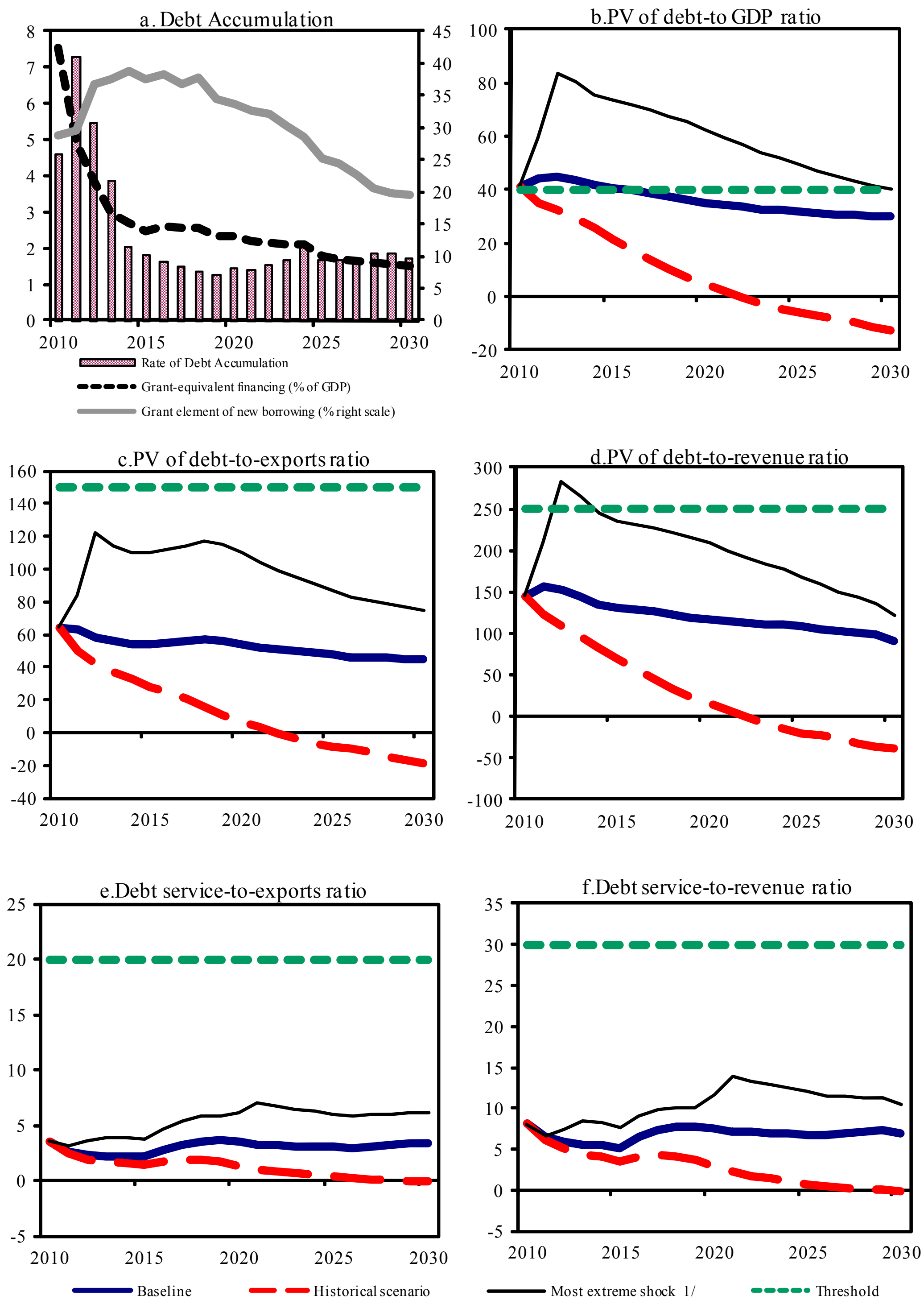
[1] Of the US$253 million external financing of the budget deficit in 2010, about US$180 million is expected in concessional loans. The deficit includes the cost of an expected one-time capitalization of AUB (about 0.8 percent of GDP).

[2] The planned investments in the energy sector have been scaled down from US$850 million to US$550 million out of debt sustainability concerns.

[3] As per the *Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries of January 2010*, remittances are included in the denominator of the modified debt burden ratios because they are an important and reliable source of foreign exchange.

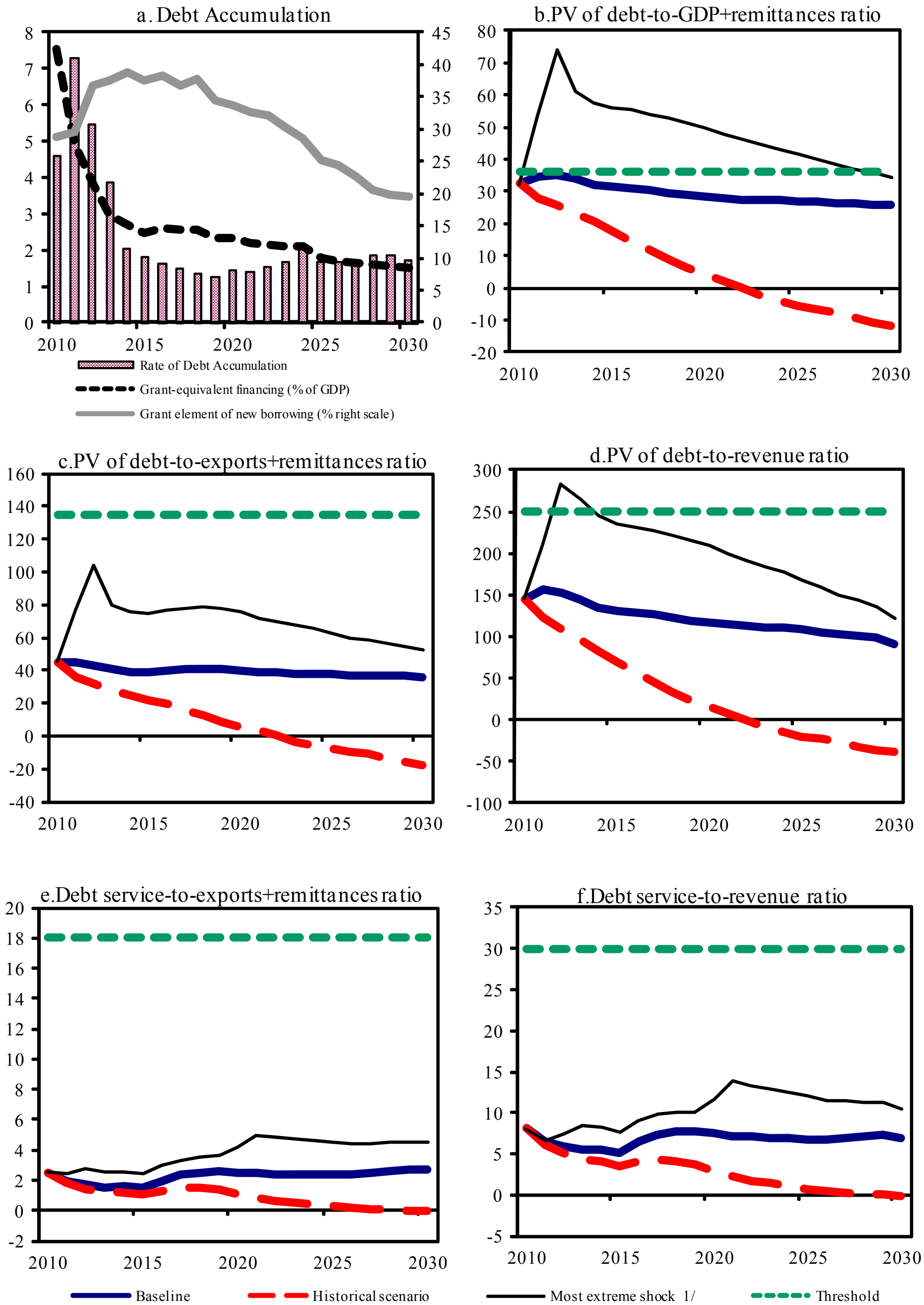
Figure 1. Kyrgyz Republic: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010-2030 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a Combination shock

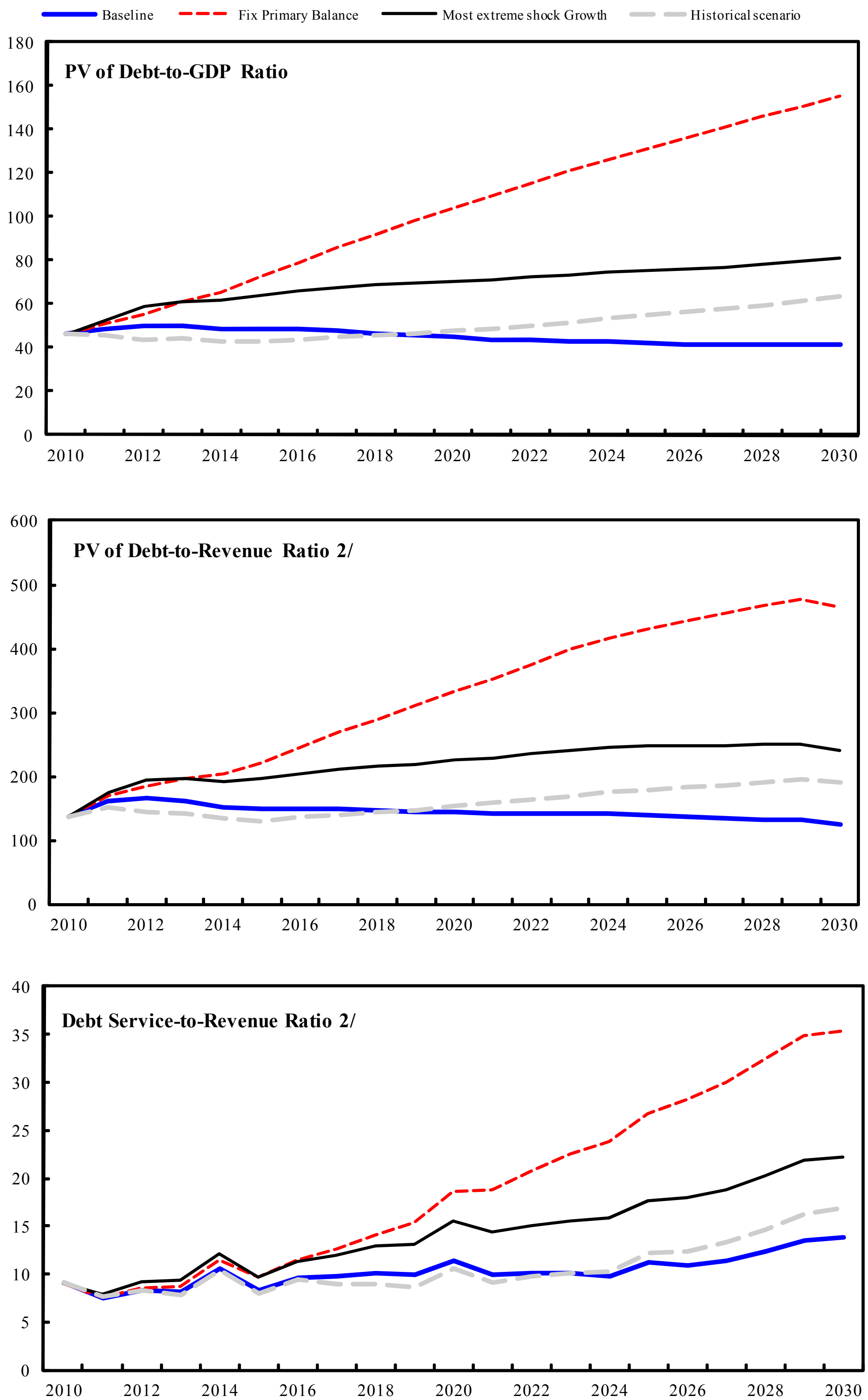
Figure 2. Kyrgyz Republic: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios Including Remittances, 2010-2030



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock and in figure f. to a Combination shock

Figure 3. Kyrgyz Republic: Indicators of Public Debt Under Alternative Scenarios, 2010-2030 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020.

2/ Revenues are defined inclusive of grants.

Table 1a.Kyrgyz Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2007-2030
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections								
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-15 Average	2020	2030	2016-30 Average
Public sector debt 1/	56.8	48.5	59.4			70.0	68.2	69.2	70.0	67.7	67.5		55.9	40.9	
o/w foreign-currency denominated	52.9	45.6	56.5			66.2	64.4	64.9	63.5	59.6	57.9		49.3	38.9	
Change in public sector debt	-15.7	-8.3	10.9			10.7	-1.8	1.0	0.8	-2.3	-0.1		-2.5	-0.5	
Identified debt-creating flows	-17.9	-9.5	6.9			14.0	1.2	0.4	-1.4	-2.2	0.0		-4.2	-4.2	
Primary deficit	0.0	-1.4	3.0	2.5	2.4	10.9	7.6	6.6	4.3	3.6	3.1	6.0	-1.0	-2.1	-1.1
Revenue and grants	30.3	29.9	33.0			33.9	30.3	30.2	30.9	31.8	32.2		32.7	34.8	
of which: grants	2.3	1.9	5.3			5.3	1.9	0.8	0.8	1.5	1.4		1.2	0.8	
Primary (noninterest) expenditure	30.3	28.5	36.0			44.8	37.9	36.7	35.2	35.5	35.3		31.6	32.7	
Automatic debt dynamics	-17.6	-8.2	3.9			4.2	-6.4	-6.1	-5.7	-5.8	-3.0		-3.1	-2.1	
Contribution from interest rate/growth differential	-7.1	-5.3	-0.6			2.7	-4.4	-4.1	-4.2	-4.1	-2.4		-3.1	-2.1	
of which: contribution from average real interest rate	-1.4	-0.9	0.4			0.6	0.2	-0.2	-0.4	-0.4	-0.4		-0.3	0.0	
of which: contribution from real GDP growth	-5.7	-4.4	-1.1			2.1	-4.6	-3.9	-3.8	-3.7	-2.0		-2.8	-2.0	
Contribution from real exchange rate depreciation	-10.5	-3.0	4.5			1.5	-2.0	-2.0	-1.4	-1.7	-0.7		...	...	
Other identified debt-creating flows	-0.2	0.1	0.0			-1.1	-0.1	-0.1	-0.1	-0.1	-0.1		0.0	0.0	
Privatization receipts (negative)	-0.1	0.1	0.0			-1.1	-0.1	-0.1	-0.1	-0.1	-0.1		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-0.1	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	2.2	1.1	4.0			-3.4	-3.0	0.6	2.2	-0.1	-0.1		1.7	3.7	
Other Sustainability Indicators															
PV of public sector debt	5.1	4.0	38.4			46.3	48.8	49.7	51.0	50.2	50.9		42.1	32.0	
o/w foreign-currency denominated	1.2	1.0	35.6			42.5	45.0	45.4	44.6	42.1	41.3		35.5	30.0	
o/w external	...	...	34.5			41.5	44.2	44.7	44.0	41.5	40.8		35.2	29.8	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	3.2	1.4	6.8			15.4	11.7	10.7	9.4	10.9	9.8		4.9	1.0	
PV of public sector debt-to-revenue and grants ratio (in percent)	16.9	13.2	116.3			136.6	161.2	164.6	165.1	157.7	158.0		128.9	91.9	
PV of public sector debt-to-revenue ratio (in percent)	18.3	14.1	138.6			162.0	172.1	169.4	169.5	165.3	165.2		133.7	94.1	
o/w external 3/	…	…	124.6			145.1	155.8	152.4	146.1	136.8	132.4		111.8	87.8	
Debt service-to-revenue and grants ratio (in percent) 4/	6.4	5.5	7.3			9.3	7.6	8.1	9.9	12.7	10.1		8.4	8.2	
Debt service-to-revenue ratio (in percent) 4/	7.0	5.9	8.7			11.0	8.1	8.3	10.2	13.3	10.5		8.7	8.4	
Primary deficit that stabilizes the debt-to-GDP ratio	15.7	7.0	-7.9			0.2	9.5	5.6	3.5	5.9	3.2		1.5	-1.6	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	8.5	8.4	2.3	4.8	3.4	-3.5	7.1	6.1	5.9	5.6	3.0	4.0	5.1	5.1	5.0
Average nominal interest rate on forex debt (in percent)	0.9	0.9	1.2	1.5	0.5	1.3	1.0	1.1	1.2	1.2	1.2	1.2	1.3	1.8	1.4
Average real interest rate on domestic debt (in percent)	-7.3	-7.0	12.9	-2.1	8.2	4.0	1.6	1.6	1.2	0.7	0.4	1.6	0.2	0.3	0.3
Real exchange rate depreciation (in percent, + indicates depreciation)	-17.2	-6.2	10.1	-7.1	7.8	2.6	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	14.9	22.2	2.1	10.4	9.2	9.3	7.1	8.1	7.5	8.1	6.2	7.7	4.0	4.0	4.1
Growth of real primary spending (deflated by GDP deflator, in percent)	0.2	0.0	0.3	0.1	0.1	0.2	-0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	28.7	29.6	36.9	37.6	38.8	37.6	34.9	33.6	19.5	...

Sources: Country authorities; and staff estimates and projections.
1/ General government gross debt.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2a.Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public Debt 2010-2030

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
PV of Debt-to-GDP Ratio								
Baseline	46	49	50	50	48	48	45	42
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	46	46	44	44	43	43	48	64
A2. Primary balance is unchanged from 2010	46	51	56	61	66	72	104	155
A3. Permanently lower GDP growth 1/	46	49	51	52	51	53	57	80
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	46	53	59	61	62	64	70	81
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	46	47	46	47	45	45	42	40
B3. Combination of B1-B2 using one half standard deviation shocks	46	47	47	49	50	51	55	64
B4. One-time 30 percent real depreciation in 2011	46	67	66	64	61	61	55	50
B5. 10 percent of GDP increase in other debt-creating flows in 2011	46	57	57	57	55	55	50	45
PV of Debt-to-Revenue Ratio 2/								
Baseline	137	161	165	161	151	148	144	124
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	137	150	145	141	133	130	153	190
A2. Primary balance is unchanged from 2010	137	170	184	197	204	221	334	464
A3. Permanently lower GDP growth 1/	137	163	169	167	160	161	183	237
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	137	174	194	197	191	195	225	241
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	137	154	153	150	141	139	136	120
B3. Combination of B1-B2 using one half standard deviation shocks	137	156	155	158	154	157	178	190
B4. One-time 30 percent real depreciation in 2011	137	221	217	206	191	186	176	149
B5. 10 percent of GDP increase in other debt-creating flows in 2011	137	188	190	184	171	168	161	134
Debt Service-to-Revenue Ratio 2/								
Baseline	9	8	8	8	11	8	11	14
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	9	8	8	8	10	8	11	17
A2. Primary balance is unchanged from 2010	9	8	9	9	11	10	19	35
A3. Permanently lower GDP growth 1/	9	8	8	8	11	9	13	21
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	9	8	9	9	12	10	16	22
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	9	8	8	8	10	8	11	13
B3. Combination of B1-B2 using one half standard deviation shocks	9	8	9	8	11	9	12	18
B4. One-time 30 percent real depreciation in 2011	9	9	11	11	13	11	15	19
B5. 10 percent of GDP increase in other debt-creating flows in 2011	9	8	9	9	11	9	13	15

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Table 3a.: External Debt Sustainability Framework, Baseline Scenario, 2007-2030 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical 0 Average	0 Standard Deviation	Projections									
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-2015 Average	2020	2030	2016-2030 Average
External debt (nominal) 1/	**57.2**	**48.4**	**61.0**			**70.9**	**67.2**	**66.3**	**64.5**	**60.5**	**58.9**		**50.0**	**39.3**	
o/w public and publicly guaranteed (PPG)	51.7	44.5	55.5			65.2	63.6	64.2	62.9	59.0	57.4		49.0	38.7	
Change in external debt	-16.9	-8.9	12.6			9.9	-3.7	-0.9	-1.8	-3.9	-1.6		-1.7	-0.9	
Identified net debt-creating flows	-24.2	-11.9	-0.2			4.3	0.8	-2.2	-3.1	-3.9	-1.4		-2.1	-0.2	
Non-interest current account deficit	**-0.5**	**7.5**	**-3.1**	**-0.6**	**4.0**	**3.8**	**8.1**	**4.2**	**3.3**	**2.5**	**2.4**		**2.6**	**3.2**	3.0
Deficit in balance of goods and services	25.6	33.3	18.8			28.2	34.4	26.7	26.2	24.3	26.3		25.8	18.9	
Exports	59.0	59.2	61.7			64.7	70.3	76.6	79.3	77.5	76.1		65.2	66.8	
Imports	84.6	92.5	80.5			92.9	104.7	103.3	105.5	101.8	102.4		90.9	85.7	
Net current transfers (negative = inflow)	-26.8	-28.8	-26.7	-17.0	9.7	-28.8	-28.6	-28.2	-28.8	-29.1	-29.1		-23.9	-16.2	-21.0
o/w official	-0.8	-0.9	-4.5			-1.4	-0.6	-0.2	-0.2	-0.2	-0.2		-0.1	-0.1	
Other current account flows (negative = net inflow)	0.7	2.9	4.8			4.5	2.2	5.6	5.9	7.2	5.3		0.7	0.5	
Net FDI (negative = inflow)	**-5.5**	**-5.2**	**-4.2**	**-3.1**	**2.7**	**-3.2**	**-3.9**	**-4.0**	**-4.0**	**-4.3**	**-3.3**		**-3.2**	**-2.6**	-3.0
Endogenous debt dynamics 2/	**-18.2**	**-14.3**	**7.0**			**3.7**	**-3.4**	**-2.4**	**-2.4**	**-2.1**	**-0.6**		**-1.4**	**-0.8**	
Contribution from nominal interest rate	0.6	0.5	1.0			1.6	1.3	1.3	1.2	1.1	1.1		1.0	1.1	
Contribution from real GDP growth	-4.7	-3.6	-1.2			2.2	-4.7	-3.7	-3.5	-3.3	-1.7		-2.4	-1.9	
Contribution from price and exchange rate changes	-14.2	-11.2	7.2			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**7.3**	**3.1**	**12.8**			**5.6**	**-4.6**	**1.4**	**1.2**	**0.0**	**-0.2**		**0.4**	**-0.7**	
o/w exceptional financing	-0.1	-0.1	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	40.0			47.2	47.8	46.8	45.5	43.1	42.3		36.3	30.4	
In percent of exports	...	...	64.9			72.9	67.9	61.1	57.5	55.6	55.5		55.6	45.4	
PV of PPG external debt	**...**	**...**	**34.5**			**41.5**	**44.2**	**44.7**	**44.0**	**41.5**	**40.8**		**35.2**	**29.8**	
In percent of exports	**...**	**...**	**56.0**			**64.2**	**62.8**	**58.3**	**55.5**	**53.6**	**53.6**		**54.0**	**44.6**	
In percent of government revenues	**...**	**...**	**124.6**			**145.1**	**155.8**	**151.9**	**145.4**	**135.8**	**130.6**		**117.8**	**91.3**	
Debt service-to-exports ratio (in percent)	**4.5**	**3.6**	**6.9**			**6.9**	**6.0**	**5.2**	**3.8**	**3.2**	**3.2**		**4.6**	**4.3**	
PPG debt service-to-exports ratio (in percent)	**3.1**	**2.5**	**3.2**			**3.6**	**2.7**	**2.3**	**2.1**	**2.2**	**2.1**		**3.4**	**3.4**	
PPG debt service-to-revenue ratio (in percent)	**6.5**	**5.2**	**7.1**			**8.0**	**6.6**	**6.0**	**5.5**	**5.5**	**5.2**		**7.5**	**7.0**	
Total gross financing need (Billions of U.S. dollars)	-0.1	0.2	-0.1			0.2	0.4	0.2	0.1	0.0	0.1		0.2	0.7	
Non-interest current account deficit that stabilizes debt ratio	16.4	16.3	-15.6			-6.1	11.8	5.0	5.1	6.4	4.0		4.3	4.1	
Key macroeconomic assumptions															
Real GDP growth (in percent)	8.5	8.4	2.3	4.8	3.4	-3.5	7.1	6.1	5.9	5.6	3.0	4.0	5.1	5.1	5.0
GDP deflator in US dollar terms (change in percent)	23.6	24.4	-12.9	9.4	10.5	0.7	0.1	4.9	4.4	4.9	3.2	3.0	2.0	2.0	1.9
Effective interest rate (percent) 5/	1.2	1.3	1.9	1.7	0.6	2.5	2.0	2.1	1.9	2.0	2.0	2.1	2.1	2.9	2.3
Growth of exports of G&S (US dollar terms, in percent)	51.1	35.4	-7.1	19.7	19.5	1.9	16.5	21.3	14.4	8.3	4.5	11.1	7.9	7.0	6.1
Growth of imports of G&S (US dollar terms, in percent)	42.8	47.5	-22.5	20.9	27.0	12.2	20.8	9.8	12.8	7.0	6.9	11.6	7.3	6.8	5.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	28.7	29.6	36.9	37.6	38.8	37.6	34.9	33.6	19.5	29.1
Government revenues (excluding grants, in percent of GDP)	28.1	28.0	27.7			28.6	28.4	29.4	30.3	30.6	31.2		29.9	32.7	30.2
Aid flows (in Billions of US dollars) 7/	0.2	0.1	0.6			0.3	0.2	0.3	0.2	0.2	0.2		0.3	0.3	
o/w Grants	0.1	0.1	0.2			0.2	0.1	0.0	0.0	0.1	0.1		0.1	0.2	
o/w Concessional loans	0.1	0.0	0.4			0.1	0.1	0.3	0.2	0.1	0.1		0.1	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			7.6	5.0	3.8	3.0	2.7	2.5		2.3	1.5	2.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			57.7	40.7	42.9	45.2	58.0	58.5		50.8	35.2	46.1
Memorandum items:															
Nominal GDP (Billions of US dollars)	3.8	5.1	4.6			4.4	4.8	5.3	5.9	6.5	6.9		9.6	19.0	
Nominal dollar GDP growth	34.1	34.8	-10.9			-2.8	7.2	11.3	10.5	10.8	6.3	7.2	7.1	7.2	7.0
PV of PPG external debt (in Billions of US dollars)			1.5			1.7	2.1	2.3	2.5	2.7	2.8		3.3	5.6	
(PVt-PVt-1)/GDPt-1 (in percent)						4.6	7.3	5.5	3.9	2.0	1.8	4.2	1.4	1.7	1.6
Gross remittances (Billions of US dollars)	1.0	1.4	1.0			1.2	1.3	1.5	1.7	1.9	2.0		2.3	3.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	28.3			32.6	34.5	34.9	34.2	32.2	31.6		28.4	25.7	
PV of PPG external debt (in percent of exports + remittances)	...	...	41.2			45.0	44.9	42.7	40.8	39.1	38.8		39.6	35.9	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.3			2.5	1.9	1.7	1.6	1.6	1.5		2.5	2.8	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 3b.Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030
(In percent)

	Projections							
	2010	2011	2012	2013	2014	2015	**2020**	2030
PV of debt-to GDP ratio								
Baseline	42	44	45	44	42	41	**35**	30
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	42	35	32	29	26	21	**5**	-12
A2. New public sector loans on less favorable terms in 2010-2030 2	42	46	49	49	47	47	**45**	46
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	42	46	49	48	45	44	**38**	32
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	42	51	67	64	61	59	**51**	35
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	42	44	47	47	44	43	**37**	32
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	42	61	78	75	71	69	**59**	38
B5. Combination of B1-B4 using one-half standard deviation shocks	42	60	83	80	75	74	**63**	40
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	42	62	63	62	58	57	**50**	42
PV of debt-to-exports ratio								
Baseline	64	63	58	55	54	54	**54**	45
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	64	50	42	37	33	28	**7**	-19
A2. New public sector loans on less favorable terms in 2010-2030 2	64	65	64	62	61	62	**70**	69
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	64	62	57	55	53	53	**53**	44
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	64	84	122	114	110	110	**110**	74
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	64	62	57	55	53	53	**53**	44
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	64	87	102	95	91	91	**90**	57
B5. Combination of B1-B4 using one-half standard deviation shocks	64	90	123	114	110	109	**109**	68
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	64	62	57	55	53	53	**53**	44
PV of debt-to-revenue ratio								
Baseline	145	156	152	145	136	131	**118**	91
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	145	123	110	96	83	68	**15**	-38
A2. New public sector loans on less favorable terms in 2010-2030 2	145	162	165	163	155	151	**152**	140
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	145	162	165	158	148	142	**128**	99
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	145	178	226	213	198	190	**170**	108
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	145	155	161	154	144	138	**125**	97
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	145	216	266	249	231	221	**197**	116
B5. Combination of B1-B4 using one-half standard deviation shocks	145	210	284	265	246	236	**210**	123
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	145	219	213	204	191	183	**166**	129

Table 3b.Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030 (continued)
(In percent)

Debt service-to-exports ratio

Baseline	4	3	2	2	2	2	**3**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	4	2	2	2	2	1	**1**	0
A2. New public sector loans on less favorable terms in 2010-2030 2	4	3	2	2	3	3	**4**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	4	3	2	2	2	2	**3**	3
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	4	3	4	4	4	4	**6**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	4	3	2	2	2	2	**3**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	4	3	3	3	3	3	**5**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	4	3	3	4	4	4	**6**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	4	3	2	2	2	2	**3**	3

Debt service-to-revenue ratio

Baseline	8	7	6	6	6	5	**8**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	8	6	5	4	4	3	**3**	0
A2. New public sector loans on less favorable terms in 2010-2030 2	8	7	6	6	7	6	**9**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	8	7	7	6	6	6	**8**	8
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	8	7	7	7	7	7	**9**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	8	7	6	6	6	6	**8**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	8	7	7	8	8	7	**11**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	8	7	7	9	8	8	**12**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	8	9	9	8	8	7	**11**	10
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	28	28	28	28	28	28	**28**	28

Sources: Country authorities; and staff estimates and projections.

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