

BUFF/10/129

September 14, 2010

**Statement by the Staff Representative on Kyrgyz Republic
Executive Board Meeting
September 15, 2010**

1. This staff statement provides an update on recent developments and reports on compliance with prior actions. It does not alter the thrust of the staff appraisal.
2. The economy shrank in August on a month-to-month basis (as it did in June and July, 2010). Year-to-date GDP growth in August (yoy basis) was 0.3 percent, compared to 16.4 percent in Q1 and 5 percent in H1. Agriculture and trade are contracting, as expected, while industry and construction sectors show positive growth rates.
3. Inflation rose to 9.2 percent in August, largely because of the surge in international wheat prices. Domestically, prices of other food items are also showing an increase. The wheat price increase contributed 1 percentage point to inflation in August, 2010.
4. Tax revenues are in line with staff projections, with collections amounting to 98 percent of the authorities' target in August (which is higher than projection provided in the staff report). Expenditures are also in line with projections.
5. On the external front, remittances are weakening after months of robust growth—there was a decline in remittances in July, 2010 by just under 10 percent (yoy basis). However, over the first seven months of the year, remittances are up by about 20 percent compared to the same period last year. The June, 2010 events in the south and the heat wave that has impacted the Russian economy may be responsible for these developments.
6. The resolution of Asia Universal Bank (AUB) is awaiting court decisions. Meanwhile, the bank continues to honor deposit withdrawals by individuals. Nonperforming loans continue to show an increasing trend—NPLs rose to 15.6 percent in July, compared to 13.7 percent in June reported in the staff report.
7. Both prior actions—i) issuance of a closed tender and terms of reference to companies short-listed by the EBRD to conduct a forensic audit and valuation of AUB shares; and ii) signatures on a Memorandum of Understanding on management of foreign exchange reserves and the channeling of IMF support to the budget—have been completed.