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August 27, 1993

To: Members of the Executive Board

From: The Secretary

Subject: Kyrgyz Republic - Staff Report for the 1993
Article IV Consultation, First Review Under the
Stand-By Arrangement, and Request for Second Purchase
Under the Systemic Transformation Facility

Attached for consideration by the Executive Directors is the staff report for the 1993 Article IV consultation with the Kyrgyz Republic, the first review under the stand-by arrangement, and a request expected to be received from the Kyrgyz authorities for a second purchase under the systemic transformation facility in an amount equivalent to SDR 16.125 million. This subject is tentatively scheduled for discussion on Friday, September 17, 1993. Draft decisions appear on pages 21-22.

Mr. P. Keller (ext. 38498) or Mr. van den Boogaerde (ext. 38869) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation 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 Commission of the European Communities (CEC), following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

Staff Report for the 1993 Article IV Consultation,
First Review Under the Stand-By Arrangement,
and Request for Second Purchase Under the
Systemic Transformation Facility

Prepared by the staff representatives for the
1993 consultation with the Kyrgyz Republic

(In consultation with other Departments)

Approved by John Odling-Smee and Thomas Leddy

August 26, 1993

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I. Introduction

The Kyrgyz Republic became a member of the Fund on May 8, 1992, following review by the Executive Board on April 10, 1992 of the staff report on the pre-membership economic review (SM/92/64, 3/18/92). On May 12, 1993, the Executive Board approved an 11-month stand-by arrangement in the amount of SDR 27.09 million (42 percent of quota) and the first purchase (amounting to SDR 16.125 million or 25 percent of quota) under the Systemic Transformation Facility (STF). This was in support of the Government's economic and financial program for 1993, including the introduction of the national currency, the som (see EBS/93/54, 3/31/93, and EBS/93/54, Supplements 1 through 5). Following approval, the Kyrgyz Republic made a first purchase of SDR 9.675 million under the stand-by arrangement together with the first purchase under the STF.

Discussions for the first review of the program took place in Bishkek jointly with the 1993 Article IV consultation discussions during July 20-August 6, 1993. ^{1/} As the Kyrgyz Republic avails itself of the transitional arrangements of Article XIV, Section 2, the Article XIV consultation discussions were held as part of the Article IV consultation discussions. The Kyrgyz representatives included the President, the Prime Minister, the Deputy Prime Minister, the Minister of Economy and Finance, the Chairman of the National Bank of Kyrgyzstan (NBK), the Managing Director of Goskominvest, and senior officials from the Ministries of Agriculture, Trade and Material Resources, and Industry, Goskomstat, the Pension and Employment Funds, and other institutions. Mr. Cippa, Advisor to the Executive Director for the Kyrgyz Republic, participated in several of the meetings.

In the attached letter to the Managing Director, and supplement to the Memorandum of Economic and Financial Policies, dated August 12, 1993 (Attachment I), the authorities describe developments under the program and specify the Government's policy objectives and intentions for the second half of 1993. Most of the performance criteria and all the indicative targets for the second quarter of 1993 were observed, including the floor on net international reserves and the targets for reserve money and net domestic assets of the banking system (Table 7). The performance criteria on net domestic assets of the NBK and net credit from the banking system to the Government were not observed largely because of difficulties in monitoring and the shortfall in the availability of counterpart funds. The performance criterion on the contracting of nonconcessional debt with maturities between one and five years was not observed as a result of a small loan for refurbishing a pharmaceutical firm. (This was a priority task to compensate for the discontinuation of shipments of medical supplies from the FSU area.)

^{1/} The mission included Mr. Keller (Head), Mr. van den Boogaerde, Mr. Simpson, and Mrs. Psalida (all EURII), Mr. Ebrahim-zadeh (PDR), Ms. Stotsky (FAD), Mr. Yablonsky (Interpreter, BLS), and Ms. Monnett (Staff Assistant, ADM), and was assisted by Mr. Trines, the Fund's Resident Representative in Bishkek.

In the attached letter, the authorities request a waiver from the Fund for the nonobservance of the end-June 1993 performance criteria pertaining to the net domestic assets of the NBK, the banking system net credit to the Government, and the contracting of nonconcessional debt with maturities between one and five years. This would permit the Kyrgyz Republic to make the second purchase under the stand-by arrangement equivalent to SDR 1.935 million upon completion of the present review. The authorities also have stated their intention to request a second purchase under the STF which would also become available upon completion of the present review. The schedule of purchases is shown in Table 8. The authorities also request the modification of several of the performance criteria for end-September 1993 and propose quantitative performance criteria and indicative targets for end-December, 1993. Details are discussed in Section IV. As of July 30, 1993, the Kyrgyz Republic's outstanding use of Fund resources stood at 40 percent of quota. Further details on Fund relations are contained in Appendix I, including projected obligations to the Fund and the technical assistance program (which is also discussed in Section III.7).

The Kyrgyz Republic's reform efforts are also being supported by technical and financial assistance from bilateral and other multilateral donors. Such support includes an import rehabilitation credit from the World Bank on IDA terms of US\$60 million; a matching cofinancing loan from Japan's OECF, which is expected to be signed in September; and grants from the United States, of which about US\$70 million has already been disbursed.

World Bank activities pertaining to the Kyrgyz Republic are described in Appendix II.

II. Developments Under the Program

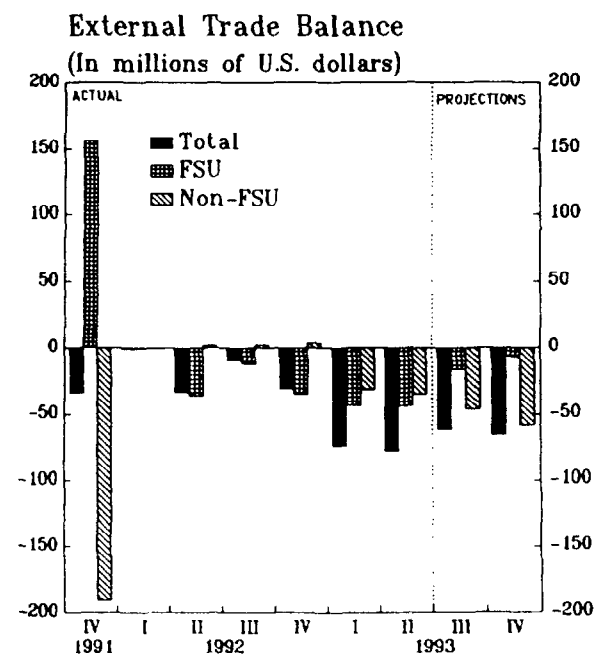
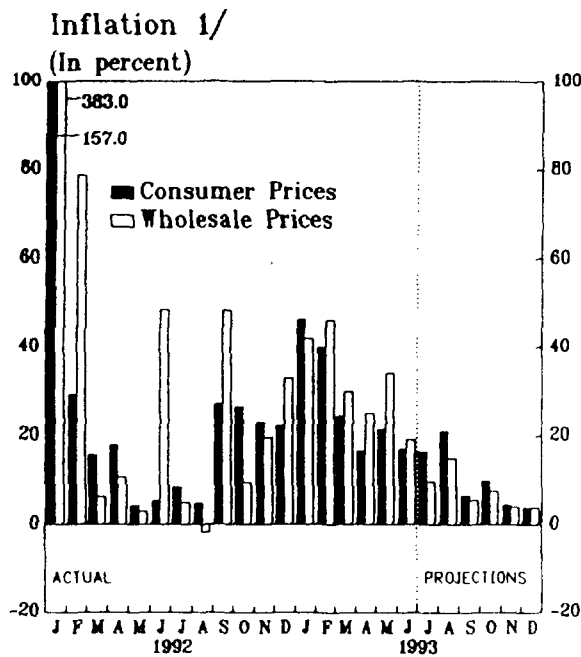
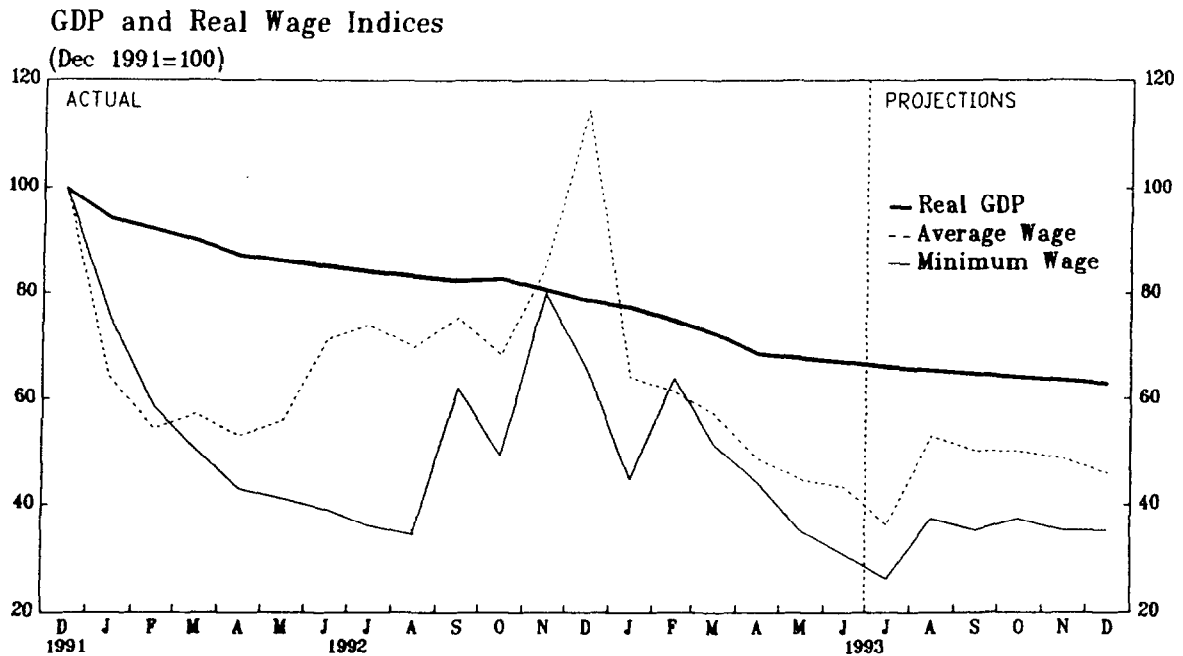
The macroeconomic stabilization program was based on the authorities assuming full control over financial policies through the introduction of a national currency. At the same time, restrictive fiscal, monetary, and incomes policies were designed to protect the external and internal value of the som. These macroeconomic policies were to be supported by further progress in the structural area, in particular in privatization and reductions in the scope of state orders and purchases.

1. Output, prices, and wages

The recorded fall in output 1/ accelerated in the first half of 1993 (and is likely to be steeper in 1993 as a whole than originally envisaged in the program) (Table 1 and Chart 1). This fall reflects mainly the continued disruptions in interstate trading but also the terms of trade shock on

1/ Official statistics apparently do not fully capture private production and services and more broadly, because of increased reliance on barter, may also no longer adequately measure production in the public enterprise sector.

Chart 1
KYRGYZ REPUBLIC
SELECTED ECONOMIC INDICATORS, 1991-93



Source: Data provided by the authorities and staff estimates.

1/ Inflation refers to the change in CPI and WPI from the previous period

account of energy, delays and shortfalls in foreign financing, and some transitory confusion and strained trading relations after the introduction of the national currency. Open unemployment remained low at less than 1 percent as enterprises were reluctant to shed labor. As a result, the Employment Fund incurred a small surplus in the first half of 1993. However, it is expected that over the medium term, unemployment will gradually increase with the hardening of budget constraints on enterprises.

In the beginning of 1993, while the Kyrgyz Republic was still in the ruble area, monthly rates of consumer price inflation were well above originally programmed levels although they declined to 17 percent by April (Table 3). Because of a substantial number of corrective price adjustments taken at the time of the introduction of the national currency, including a tripling of bread prices and various excise tax measures, the consumer price index in May rose by about 21 percent. Inflation in June and July stabilized at a high monthly rate of about 17 percent, which may have reflected, in addition to the anticipated pass through of rising prices on imported energy products, the shortfall and disruptions in the supply of imported goods from neighboring countries (which still have not been completely overcome). 1/

In early February 1993, the minimum wage and related benefits, such as child and student allowances and pensions, were raised by 100 percent and budgetary wages by 50 percent. While the program foresaw only a moderate further wage increase in the government sector by 20 percent on September 1, 1993, the much higher than projected inflation led to a strong erosion of real budgetary wages between early February and end-July. In these circumstances, the Government decided to increase budgetary wages and minimum wages, allowances, and pensions by 75 percent effective August 1, 1993, and to make provisions for further adjustments by 25 percent (over the end-February base) on October 1, 1993. At the same time, the Government raised bread prices by 150 percent--faster than originally programmed--and put in place major corrective pricing measures relating to house rents and associated utilities. To compensate the poorer segments of the population for the increase in bread prices, targeted cash transfers were raised. 2/ A further bread price increase is scheduled for October 1, 1993.

2. Financial developments

Monetary and budgetary policies in the period leading up to the introduction of the national currency were somewhat uneven. At end-March, net domestic assets of the NBK and banking system, and with it reserve money and broad money, were well below original program projections. However,

1/ There are considerable weaknesses in the price statistics and inflation may be overestimated. A technical assistance mission on price statistics and national income accounts is planned for September.

2/ The forthcoming RED will provide a detailed description of the social safety net.

following the delayed receipt of a rub 20 billion cash shipment from the Central Bank of Russia (CBR) in April, overdue payments were settled by the Government and enterprises, and reserve money expanded by 44 percent in April. As a result, monetary figures at end-April were reasonably close to program projections.

The official currency conversion in May led to only a partial exchange of cash rubles for the new currency. This may have reflected a desire, particularly by nonethnic Kyrgyz, to hold on to cash rubles for future use in the ruble area. It may also have reflected the earlier use of cash rubles to finance imports of goods and services from neighboring republics. Thus, while the amount of ruble currency issued in the Kyrgyz Republic is known, the actual stock of currency circulating in the Kyrgyz Republic before the conversion to the new currency is subject to a high level of uncertainty and may have been substantially smaller. Moreover, it is not clear to what extent unconverted ruble balances still form de facto part of the Kyrgyz money supply.

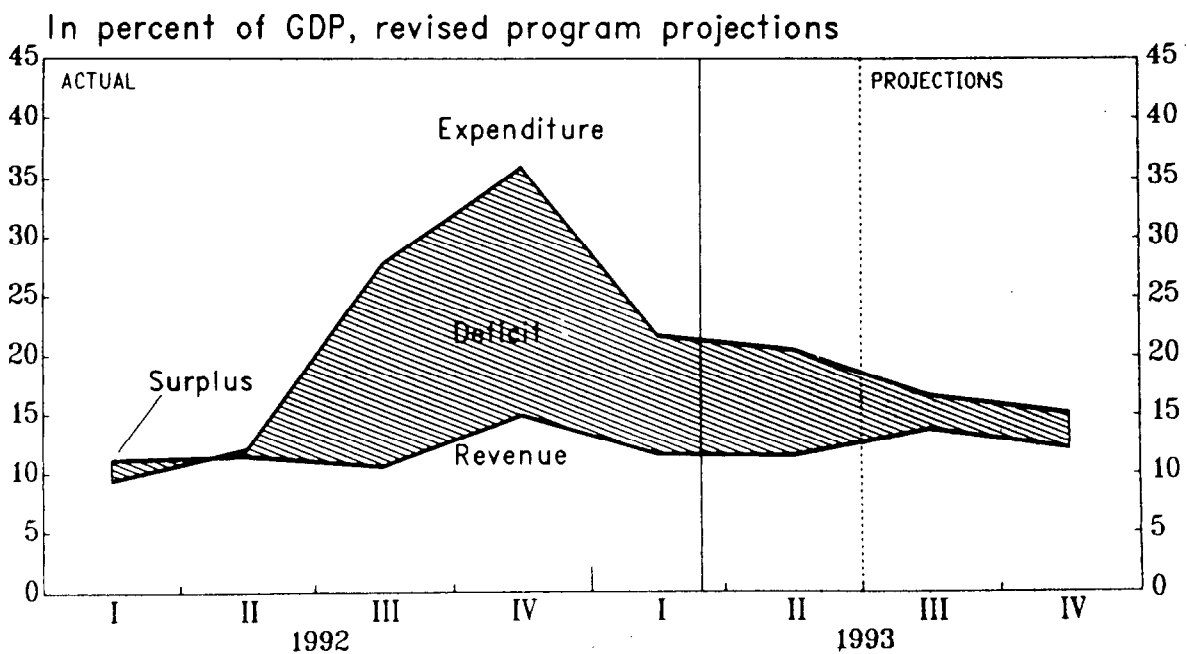
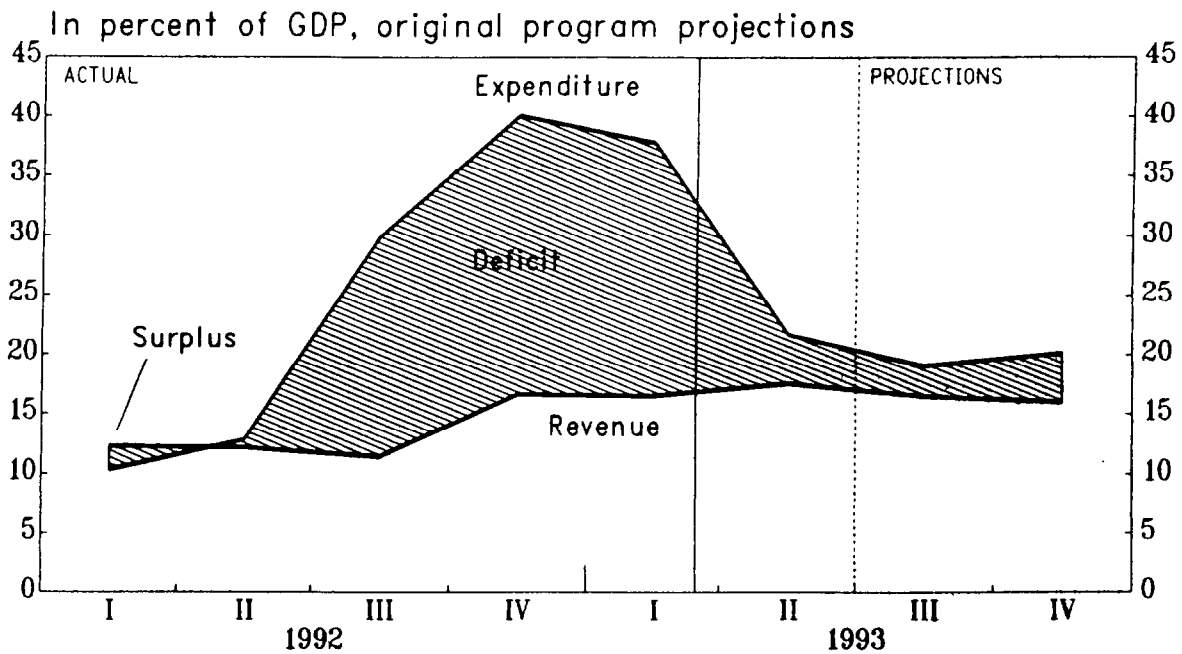
As a result of the conversion of only 27 percent of cash rubles into som, recorded reserve money and broad money plunged and these aggregates at end-June were substantially below program projections (Table 4). The offsetting entry in the balance sheet of the NBK and the banking system was a smaller decline in net foreign liabilities to the CBR. Subsequently, monetary aggregates expanded rapidly in July when the banking system extended substantial credits to the economy, particularly to meet seasonal requirements in agriculture.

Interest rates established in the auctions for refinance credit and treasury bills more than doubled in the first half of 1993, and by mid-August these rates had reached effective yields (i.e. compounded) of 150 percent and 134 percent, respectively.

In the course of 1992, substantial domestic interenterprise arrears had emerged. These were cleared in the period leading up to the introduction of the national currency through budgetary transfers, which was the primary reason for the large budget deficit recorded in the period January to May 1993. As a result of the increasingly difficult economic situation, growing difficulties in the domestic payments system, and the continuation of state orders and purchases at non-remunerative prices, domestic payments arrears reemerged shortly after the introduction of the national currency and were estimated to have grown to som 170 million by end-June.

The consolidated general government deficit in the first half of 1993 was 9.4 percent of GDP (Table 3 and Chart 2). Revenues for the first half of 1993 were well below expectations for the major revenue sources, such as VAT and excises. Tax revenues accounted for 75 percent of total revenues and grants, nontax revenues for 20 percent, and foreign grants for 5 percent. The most important tax source was the VAT, which, despite the shortfall in collection, accounted for 27 percent of total revenues.

Chart 2
KYRGYZ REPUBLIC
FISCAL INDICATORS, 1992-93 1/



Source: Data provided by the authorities and staff estimates.

1/ Solid vertical lines represent start of arrangement period.

In general, expenditures were cut back in the face of the revenue shortfall, but there were, as expected, large scale on-lending and transfers to state enterprises for clearing interenterprise arrears and for working capital purposes, which accounted for 28 percent of total expenditures in the first half of 1993. Both revenue and expenditure declined in real terms and as a percentage of GDP.

Following the introduction of the national currency in May, the budgetary deficit was strictly limited, in part through continued wage discipline. Budgetary financing through the banking system in June and July amounted to only som 34 million and was about in line with the shortfall in the projected counterpart funds.

3. Balance of payments, exchange, and debt developments

Even prior to the introduction of the national currency, some FSU countries interrupted the use of interstate technical credit lines because of unresolved issues regarding the settlement of the outstanding balances under the correspondent accounts, thereby disrupting trading relations even further. Notwithstanding agreements--after prolonged discussions--with Kazakhstan, Russia and Uzbekistan on the conversion of these balances into medium-term interstate credits, FSU credit lines and normal trading relations were only partially restored. Moreover, the terms on the rescheduled amounts were much harsher than previously expected. Also, the amount of new financing for 1993 now available from Russia falls far short of Russia's pledges at the April 1993 Consultative Group meeting. Likely support by other FSU countries, which had not participated in the consultative group process, is also much less than earlier indications had suggested.

As to the other elements of the balance of payments, the available information remains incomplete and difficult to interpret. 1/ There are reasons to believe that the volume and value of both imports and exports are significantly underrecorded. 2/ Nevertheless, it is apparent that there was a sharp contraction in both volume and value of trade with the FSU area in the first half of 1993. This reflected the collapse of traditional markets, shortfalls in foreign financing and, with respect to volume, much higher prices for imported energy products (with energy prices now closely related to world market prices). The terms of trade in the first half of 1993 declined by about 37 percent from the average level for 1992.

1/ In particular, the 1992 balance of payments outcome was completely revised by applying more realistic ruble/dollar exchange rates. As a result, the 1992 outcome can be compared with the 1993 revised projections. However, the latter cannot usefully be compared with the original program projections as these had been based on the previous estimate for 1992.

2/ The reporting is based not on customs data but on submissions by individual enterprises. The increased reliance on barter transactions may have also contributed to a systematic underrecording of trade flows.

There was a noticeable opening of Kyrgyz trade to the rest of the world. Exports to nontraditional trading partners in the first half of 1993 were higher than for the whole of 1992. Imports from the non-FSU area were also much higher, and largely financed by grants from the United States and disbursements under loans from Turkey and the European Community. Despite the shortfall in other foreign financing, the targeted build-up of convertible gross reserves was achieved as the authorities limited foreign exchange sales into the interbank market.

The som was launched on May 10, 1993 and after some initial hesitation at the beginning of the official conversion period, the national currency was generally accepted. Indeed, immediately following the conversion, the som appreciated very sharply. This appreciation was, however, subsequently reversed and by mid-August the som was trading in the interbank auction market at about 6 soms to the dollar, i.e., well below the initial exchange rate of about 4 soms to the dollar. Pressures on the som were further aggravated by the demand for rubles by nonethnic Kyrgyz who were emigrating in increasing numbers and, therefore, were liquidating their financial and other asset holdings, in particular by selling their houses and apartments.

Essentially as a result of the hardening of the credit terms on the conversion of correspondent account balances and the debt expected to result from the large difference between rubles issued and rubles withdrawn, the Kyrgyz Republic's external debt position is now significantly worse than a year ago.

4. Structural reforms

Since the beginning of 1993, privatization in the industrial sector has mostly taken the form of transformation of enterprises into joint stock companies, with the majority of shares held by the Government, or "collectivization" with workers prohibited from retaining shares on separation or selling shares outside the circle of employees ("closed" joint stock companies). There was a setback to privatization when the new constitution (approved in early May 1993) did not allow for private land ownership in agriculture (but the right for long-term leasing with inheritance rights continues for private farmers). Control over the privatization process was transferred from the Ministry of Agriculture to the State Property Fund, which is turning the sovkhoz and kolkhoz into shareholding companies, in a move away from the experimental break-up of the state and collective farms that had begun last year.

As of early August 1993, 22 percent of the fixed assets of enterprises have been privatized, and the target of 35 percent privatization by end-year remains realistic. The sectors in which privatization proceeded at a relatively fast past were retail trading and services; progress was, however, disappointing in the wholesale and transport sectors.

Even though most prices were liberalized in principle in 1992 1/, the Pricing and Antimonopoly Committee continued to exert a strong influence over price formation. Moreover, as temporary shortages surfaced after the introduction of the som, the authorities briefly reintroduced a price control mechanism 2/, which was eliminated except for bread, milk, meat, and flour on August 16, 1993. Profit margins for monopolists remained in force, however.

In order to fulfill bilateral barter trade agreements with other republics and to deal with the strains that emerged with the introduction of the som, the schedule that was envisaged under the program for the abolition of state orders and purchases was not adhered to; in fact, state orders were reintroduced for certain products. 3/ Although state purchases were to take place on the basis of freely agreed prices, this was apparently not generally the case, particularly in agriculture, and this contributed to the weak financial position of enterprises and the reemergence of inter-enterprise arrears. In addition, problems arose when agricultural enterprises were unwilling to deliver at the mandated prices but were prohibited from exporting directly.

III. Policy Discussions and the Program for the Second Half of 1993

1. The budget for the balance of 1993

The policy dialogue and adjustments to the program for the second half of the year were largely centered on the budget.

The authorities were foremost concerned with the dangerously low tax revenue collection, which was predominantly due to the deepening recession and weakness in tax administration, including permitting nonpayment of taxes by enterprises in financial difficulties. Tax rates per se were seen as

1/ With the exception of oil products, gas, rents, bread and flour, whose prices continue to be directly controlled by the state.

2/ A mandatory limit on retail mark-ups was imposed on all traders between the wholesale and the retail level, set at a maximum of 25 percent. These mark-ups applied to almost all consumer goods and those manufacturing goods that were under the state purchasing system. In addition, a maximum profit margin, varying across sectors between 20 percent and 25 percent, was imposed on producers who were considered to be "monopolists". A monopoly is defined as an enterprise with a domestic market share of at least 35 percent. Given the specialization in the FSU, there are many "monopolies". The profit margin is the difference between the cost of production (not taking into account the costs of transportation, storage, and distribution) and the price.

3/ In agriculture, most production, with the exception of certain fruit and vegetables, remained subject to state orders or purchases. In industry, the output covered under the state orders and purchases system is determined by the Ministry of Trade and Material Resources and varies widely.

already being at, or near, appropriate levels, particularly from a medium-term perspective. In the short term, however, given the uncertain prospects for improving quickly the administration of taxes and reducing exemptions, the authorities felt that additional taxes were required to constrain the budget deficit. Accordingly, they introduced on August 16, as an emergency measure for the balance of 1993, a turnover tax of 5 percent (from which agriculture, energy, and the bread industry are exempted). The staff had favored a temporary increase in the VAT rate instead, for a number of reasons, but this would have required agreement by Parliament (which was not assured and, in any case, Parliament will not be in session until later in the year). In addition, the authorities raised the excise tax on petroleum products from the current 15 percent to 20 percent and broadened the applicability of customs duties, including a corresponding petroleum import duty of 20 percent.

As to tax administration, the authorities have requested assistance from Fund staff in the drafting of new legislation. However, as an immediate step, the applicability of the VAT and other taxes was extended to barter and credit transactions. Also, the authorities believe that it will be easier to enforce collection of petroleum duties rather than the excise tax. Moreover, more ambitious tax collection targets are to be set to take account of inflation, tax collection will be pursued more aggressively, and the authority of the Ministry of Economy and Finance over the State Tax Inspectorate and Customs agencies will be strengthened.

It is estimated that the administrative improvements may yield between som 50 and 70 million for the balance of 1993, the turnover tax som 38 million; and the increase in petroleum taxes together with the extension of customs duties, an additional som 20 million.

The authorities agreed that a fundamental improvement of tax administration was indispensable and suggested that such measures could usefully be included in a multi-year follow-up program to the present program.

The programmed level of expenditures for the second half of 1993 implies a substantial real decline in nearly all budget areas. Most importantly, the budget has no allocation for transfers to enterprises to clear arrears or for working capital purposes. At the beginning of 1993, the Government limited the eligibility for family allowances (a major budgetary outlay) to 80 percent of the children by introducing means testing, and intends to limit eligibility to only 50 percent of the children from midyear. Overall, the Government intends to keep the overall budget deficit strictly to som 160 million to protect the value of the new currency. Additional expenditure cuts will be taken should there be a further shortfall in tax collection, although the authorities were concerned that even essential categories were already underfinanced.

While the authorities originally intended to rely exclusively on foreign financing (and on limited financing from the domestic nonbank sector), this is no longer achievable. Accordingly, the program for the second half of 1993 calls for the use of counterpart funds to foreign loans

of up to som 80 million and for a further som 80 million to be financed at market-related interest rates through the NBK and treasury bill sales. In the event of a delay in the availability of foreign loans, up to som 40 million in additional interim bank financing could be provided. Although the deficit for the second half of 1993 has doubled in nominal terms over the original program projection, it has been reduced over the original projections as a percent of GDP.

2. Monetary and credit policies

In view of the urgency of reducing inflation in line with the program objectives, the authorities were determined to keep the expansion of reserve money and broad money in the second half of 1993 to a rate below that of the projected expansion of nominal GDP (Chart 3). The limited recourse to bank credit by the budget provides room for an adequate expansion of credit to the rest of the economy and the ceilings for end-September take account of the substantial seasonal needs of agriculture (and agroprocessing) in the third quarter. The staff was, however, concerned about the lack of provision of bank credit to the emerging private sector, since banks appeared to channel credit mainly back to their traditional customers and their own shareholders, i.e., the large public enterprises in industry and agriculture. The authorities were confident that the development of competition among banks together with greatly increased reliance on the allocation of refinance credit through the auction method ^{1/} would, over time, support the credit needs of private and privatized enterprises.

In light of the faster than expected inflation, interest rate developments in neighboring countries, and other pressures on the som, the authorities expected that the auctions of refinance credit and treasury bills would continue to generate rising nominal rates of interest. While deposit interest rates were also rising, the staff noted that the legacy of the erratic and unpredictable way in which savers were in the past (partly) compensated for inflation continued to discourage private financial savings. The authorities agreed to work on creating appropriate instruments for encouraging private savings.

The authorities indicated that the large and unpredictable negative float item--a result of the increasing inefficiencies of the domestic payments system--made it difficult to control the growth of net domestic assets with the required precision. However, new administrative arrangements were made to speed up the clearance process, and the authorities are prepared to compensate quickly for any unforeseen changes in the float so as to achieve the program targets.

^{1/} In the first half of 1993, about 20 percent of refinance credit was distributed through auctions; the balance largely reflected increases in overdrafts to a few large banks (extended at the same interest rates as determined in the auction). The introduction of a Lombard facility--which occurred in August 1993--should reduce recourse to overdrafts.

3. Interenterprise arrears

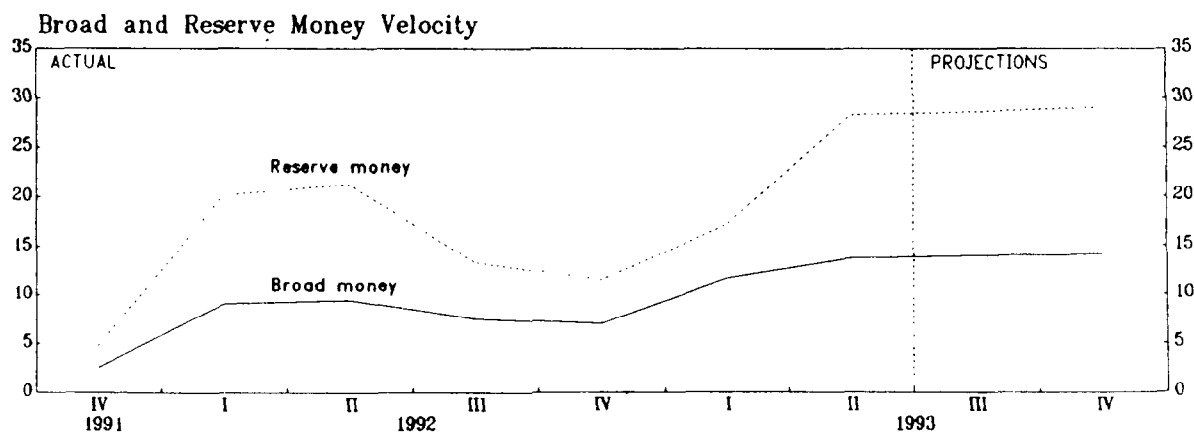
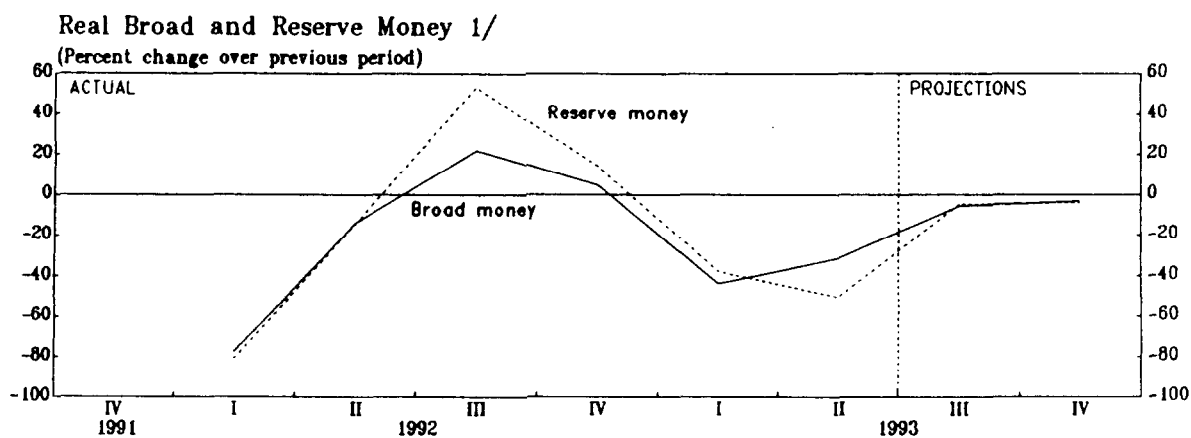
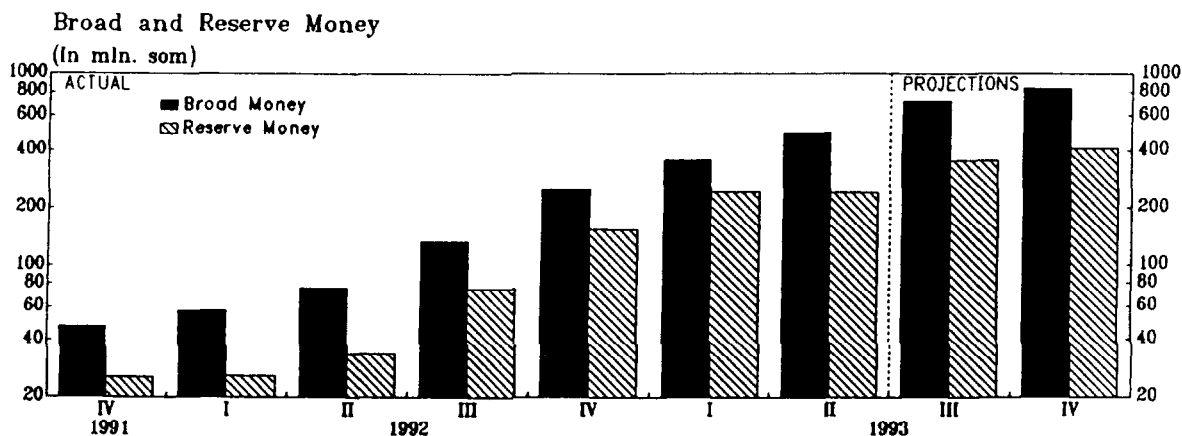
On the related issue of domestic interenterprise arrears, the authorities were concerned that unless these arrears were quickly settled the economy would decline further and taxes would not be collected. The staff noted that the rescue effort earlier this year had been the source of the large budget deficit and considered that--in addition to the moral hazard associated with the repeat of a general bail-out--there was simply no room in the budget or in the credit program for such an operation. In the end, the authorities accepted that any solutions must be strictly consistent with the agreed monetary and budget objectives so as not to jeopardize the new currency. Accordingly, the Government intends to assist with the mutual offsetting of claims among enterprises and with working out, on a case-by-case basis, bilateral agreements between enterprises to settle their debts. Moreover, the Government is prepared to take recourse, where appropriate, to the new bankruptcy law, which is to be passed by Parliament in its fall session. A possibly more important remedy will be the abolition of mandatory state orders and purchases at nonremunerative prices (which, at least in the staff's view, were a major reason for the domestic arrears problem).

4. Structural and incomes policies

The staff noted with concern the delay (and even reversal) in the abolition of the system of state orders and purchases, the introduction of limitations on retail and profit margins, and the comprehensive lists of commodities whose prices became subject to scrutiny by the Pricing and Antimonopoly Committee. The authorities explained that the delay in the abolition of state orders and purchases was due to the extremely difficult economic situation, the absence of functioning markets, and the need to meet commitments under barter agreements with FSU countries (on which the Kyrgyz Republic was forced to rely). Nevertheless, after a lengthy debate of this issue with the staff, the authorities reconfirmed their intentions to eliminate all state orders and purchases in agriculture and industry by the end of the year. This step will be facilitated by the fact that the authorities do not expect interstate barter agreements to continue beyond 1993. In addition, the limits on retail and profit margins which were introduced as a temporary measure shortly after the transition to the national currency were abolished on August 15. Moreover, the authorities are prepared to reduce by half the number of commodities whose prices are under surveyance by the Pricing and Antimonopoly Committee.

The staff inquired as to the advisability of recourse to direct incomes policies outside the budgetary sector. In the authorities' view there has not been an excessive growth of nominal wages in the public enterprise sector and, on balance, the draw-backs of direct intervention were seen as exceeding potential benefits. They agreed to monitor closely wage developments in the public enterprises and in particular in those enterprises that were experiencing financial difficulties.

Chart 3
KYRGYZ REPUBLIC
MONETARY INDICATORS, 1991-93



Source: Data provided by the authorities and staff estimates.

1/ Deflated by the GDP deflator.

On privatization, the authorities explained that the Government's efforts to introduce with the new constitution private property rights on agricultural land had been foiled by Parliament. The mission noted that progress on privatization in agriculture had slowed in recent months, although earlier on privatization had been successfully pursued on the basis of long-term leases with inheritance rights. Also, privatization in general had relied excessively on "collectivization" and on the formation of "closed" joint stock companies with majority shareholding retained by workers or the Government. The authorities indicated that they have reached agreement with the World Bank on a revised approach to privatization that would strictly limit the privileges extended to labor collectives, entail the selling off of majority shares now held by the Government, and increasingly rely on auctions and the use of vouchers in mass privatization. A concept note and legislation on privatization was being prepared for approval by Parliament during its fall session.

5. External sector policies

a. Balance of payments in 1993

The program had envisaged for 1993 a widening of the current account deficit based on the movement to international prices for energy products and other commodities and on large donor-financed imports from the non-FSU area to promote structural reforms. The disintegration of traditional trading relations within the FSU and the shortfall and delays in financing have created substantial strains not only in the balance of payments but also in adjusting domestic production and income. With agreed new financing from Russia well below the indications provided at the Consultative Group meeting and limited financing from other FSU states, imports from the FSU area are not expected to recover in the second half of 1993 and are now projected to decline by about 15 percent in volume terms compared with 1992. The volume of energy product imports, in particular, is forecast to decline by more than 20 percent in 1993, versus a decline of only 6 percent forecast in the original program.

Non-FSU imports in the first half of 1993 were much higher than in 1992, but lower than projected, because basically only the U.S. portion of the import assistance pledged by Western donors had been disbursed by end-June 1993. Disbursements under the World Bank's import rehabilitation credit on IDA terms have now started, and it is expected that Japan's OECF cofinancing loan will come on stream later in the year. On this basis, the volume of non-FSU imports is expected to accelerate further in the second half of 1993, reflecting also the opening up of the economy and the shifting of import procurement to non-FSU sources. As a result, the overall import volume is projected to increase by about 20 percent over 1992, while the value of total imports is expected to increase by more than 80 percent.

Exports to the FSU are now projected to decline sharply in volume terms compared with 1992, reflecting the disruption of trade within the FSU. By contrast, exports to nontraditional trading partners expanded rapidly (from a low base) in the first half of 1993 and are expected to increase further

in the second half of the year. For 1993 as a whole, non-FSU exports are projected at nearly three times their low 1992 value level, and total export volume at about 94 percent of its 1992 level. As a result of somewhat larger than expected service payments, a current account deficit (before grants) of US\$405 million (24 percent of GDP) is expected to emerge, equivalent to US\$288 million or 17 percent of GDP, after grants. As originally targeted, gross external reserves are projected to reach about US\$64 million by the end of 1993 (1.3 months of total 1993 imports and 3.3 months of non-FSU imports). Based on identified capital flows, the overall balance of payments for the remainder of the program period is fully financed.

b. Exchange system and trade policies

With the introduction of the national currency, the Kyrgyz authorities established a liberal foreign exchange system for both current and capital transactions and a freely floating exchange rate. The only exchange restrictions of which the staff is aware are those arising from the failure of the authorities to settle within 90 days outstanding balances on correspondent accounts with some FSU countries; these restrictions are maintained under the transitional arrangements of Article XIV, Section 2. 1/

The interbank foreign exchange market is supplied through weekly foreign exchange auctions. Initially, a significant spread emerged between rates quoted for deposit dollars in the interbank market and for cash dollars in the retail market. This apparently reflected two main factors: (i) commercial banks participating in the interbank auction bought foreign exchange for their own clients (which were often also their shareholders) and were not geared to meet the needs of other firms and individuals and (ii) there was an initial shortage of U.S. dollar notes.

The authorities noted that recent improvements in the auction procedure and widened participation in the interbank market, together with the increased availability of U.S. currency notes, had substantially narrowed the discrepancy between the exchange rate for cash and noncash transactions. The authorities confirmed that in any case such exchange rate differences were not due to any actions on the part of the Government, or the National Bank, but a reflection of the still rudimentary nature of the foreign exchange markets and the inexperience of the banks in providing services to nontraditional clients. The entry of new banks and the emergence of more

1/ It is expected that these balances will be settled shortly. In addition, the staff is in the process of gathering the information necessary to assess the jurisdictional implications of the Kyrgyz Republic's other correspondent accounts with FSU countries.

competitive attitudes of bank managers should help overcome this problem. 1/

The trade system is in many respects free of restrictions on both exports and imports. Except for items required to safeguard national security and public health, and exports of certain food items and other raw materials covered by bilateral trade agreement, there are no quantitative restrictions or quotas on exports or imports. About seventy categories of products require an export license, which is, however, in most cases freely granted. Also, certain regional and local governments have from time to time restricted the movement of agricultural and other commodities, which may have resulted in not only disruptions of trade within the Kyrgyz Republic but also across national borders.

Because of the breakdown of interstate trading relationships within the FSU, a large proportion of trade was, already prior to the introduction of the national currency, conducted through barter agreements by state agencies. This in turn has contributed to the perpetuation of the system of state orders and purchases to meet bilateral commitments. The authorities, however, firmly intend to reduce significantly all state orders and purchases in agriculture and industry before the second review in order to meet the agreed goal of their complete elimination by year-end, and to eliminate, before the second review under the stand-by, all export and import licensing requirements except those required to safeguard national security and public health.

6. Medium-term outlook and capacity to repay the Fund

a. Medium-term outlook

The staff has updated the tentative medium-term balance of payments scenario. These projections remain subject to considerable uncertainty, and the scenario presented should be considered only as illustrative of likely developments.

The scenario in Table 6 is based on a projected further fall in output in 1994 by 3 to 4 percent and a rebound in real GDP growth to nearly 4 percent in 1995 and 5 percent in the years 1996-99. World market prices for exported and imported energy products, which were implemented in 1993, were adjusted for subsequent years in accordance with the World Economic Outlook projections. No significant change in the non-oil terms of trade could be forecast with assurance.

The scenario is based on a continued gradual shift away from FSU sources toward non-FSU imports, with the latter partly financed by concessional donor assistance. The volume of energy imports is projected to grow

1/ An MAE technical assistance mission will visit Bishkek shortly to address this and other issues (in particular, the negative float referred to in section III.2. above).

by about 3 percent a year, as greater recourse to domestically produced coal and hydroelectricity is expected. Exports to the FSU are forecast to grow only moderately over the scenario period, while fairly significant growth rates (from low levels) are projected to continue in other markets as a result of the general opening up of the economy to the non-FSU area. The trade deficit with the FSU is expected to progressively narrow, and then swing into a surplus from 1997 onward. Overall, the current account deficit (before grants) is projected to decline to about 2.2 percent in 1999, mainly as a result of growing private sector savings.

Projections of the capital inflows only take account of disbursements on loans already committed as of mid-1993 along with projections of direct investment. A steady build up of gross official reserves is targeted with reserves equivalent to 2.1 months of total imports by 1999. With some of the financing for 1994 already identified, the residual financing requirement is projected at US\$254 million in 1994. After an increase in the financing gap to US\$350 million in 1995, it is projected to decline steadily to about US\$174 million by 1999. It is reasonable to expect that over this period a pipeline of assistance and project financing will be built up that could generate annual disbursements of that order. On the assumption that US\$100 million in annual grant assistance would be available, the external debt would stabilize near US\$1.4 billion after 1997. Most of this debt is expected to be contracted on concessional terms. Based on interest rates on the residual financing gap at 3 percent, other than for the IDA credits, and the assumption of a five-year grace period, debt service would peak at about 14 percent of total exports in 1995 (largely because of the maturity profile of the FSU interstate debt), and average 10 percent of total exports between 1996 and 1999.

Though these projections are extremely tentative, they convey the broad implication that future borrowing on commercial terms should be avoided to keep debt service payments within the country's capacities in the long run.

b. Capacity to repay the Fund

While there are many risks and uncertainties regarding the medium-term outlook, Kyrgyz Republic's capacity to repay the Fund will depend mainly on the Government's continued willingness to implement strong macroeconomic and structural adjustment policies on a sustained basis. The medium-term balance of payments projections indicate that the financing needs will remain large throughout the period during which repurchase obligations will become due, even though it is projected that progress toward external viability will be achieved and that external financing will be provided mainly on a concessional basis throughout the period.

Under the medium-term scenario, Fund credit is projected to gradually decline as a proportion of total external debt from a peak of 19.6 percent at the end of 1993 to about 12.1 percent in 1998 (Table 9). Debt service to the Fund would peak at US\$10.2 million in 1997, which would amount to 1.3 percent of total merchandise exports (3.8 percent of convertible currency area exports) and to about 6.6 percent of projected gross external

reserves. Since additional use of Fund resources may be envisaged, both the scope and modality of further financial assistance would need to be kept under close review in the context of the evolving medium-term outlook. Any material weakening of the policy effort that has been initiated under the present stand-by arrangement and STF would put at risk the Kyrgyz Republic's capacity to service in a timely fashion its financial obligations to the Fund. However, given the authorities' commitment to reform and the expectation of continued concessional support from the international community to help carry forward the reform program, the staff believes that the Kyrgyz Republic will be able to repay the Fund as scheduled.

7. Technical assistance

The Fund, together with the World Bank and other multilateral and bilateral donors, has provided technical assistance to the Kyrgyz Republic over the past year and a half (see Appendix I on Fund technical assistance). As a result, considerable progress has been made, particularly in the National Bank of Kyrgyzstan, where significant changes have taken place in the Bank's management, structure, and analytical capacity, as well as in its monetary and exchange policy operations. A new central bank law, banking legislation, and a foreign exchange law were drafted with the assistance of the Fund. In the fiscal area, technical assistance so far has focused on tax administration and policy, and the social safety net. A number of officials have benefitted from training courses held in Bishkek, Vienna, and at headquarters.

Additional assistance will, however, be needed and the Fund's efforts will be re-enforced, particularly in the areas of tax policies and tax administration, public expenditure management, improvement of the national income, price, and balance-of-payments statistics, and banking management, supervision, accounting, and the domestic payments system. Further technical assistance will also be crucial in establishing more market-oriented monetary and exchange policy instruments. The authorities intend to make greater use of resident and semi-resident advisors, which will make the technical assistance even more effective. A long-term advisor at the National Bank will take up his assignment in October 1993 and a long-term budget advisor has been identified.

There is a need to establish a mechanism for the coordination of the technical assistance being provided to the Kyrgyz Republic, to avoid a duplication of efforts. ^{1/} In May 1993, a local Consultative Group meeting was chaired by the World Bank in Bishkek to coordinate future technical assistance. Priority areas for additional technical assistance by the World Bank and other donors are: (i) enterprise rehabilitation and restructuring and alternative privatization methods in industry; (ii) telecommunications and electric power; and (iii) mining. Technical assistance on the social safety net will also continue to be provided by the World Bank and other donors.

^{1/} An External Assistance Management Unit has been established in Goskominvest to build the capacity for monitoring and coordinating technical assistance.

Technical assistance by institutions other than the Fund could also usefully focus on: (i) external debt management, including the establishment of a computer-based system to record external debt and projected debt service; (ii) legal institution building to cover a wide range of areas; (iii) commercial banking assistance and training; (iv) commercial enterprise accounting and auditing; and (v) privatization and land reform in agriculture. There is also a general need for help in computerization to facilitate the compilation and analysis of data.

IV. Performance Criteria for the Second Half of 1993

The quantitative criteria selected for monitoring performance under the stand-by arrangement remain as described in Section V of EBS/93/54, Supplement I. In the attached letter, the authorities request the modification of several of the performance criteria and indicative ceilings for end-September to take account of recent developments and propose quantitative performance criteria and modified indicative targets for end-December (see Table 7).

The floor on net international reserves of the NBK in convertible currencies for end-September remains unchanged and the proposed floor for end-December is the same as the previous indicative target. The proposed ceilings on net credit from the banking system to the Government are revised in a manner consistent with domestic bank financing of the budget deficit of up to som 80 million in the second half of 1993. Also, the end-September and end-December limits will be adjusted upward to som 40 million for any shortfall in the availability of counterpart funds. The projected use of counterpart funds to finance the budget deficit was revised to reflect the delay in foreign financing; it is now proposed to limit the cumulative use of counterpart funds to som 40 million up to end-September, and som 80 million up to end-December. It is also proposed to revise, as set out in Table 7, the end-September performance criteria on net domestic assets of the NBK, the indicative ceilings on net domestic assets of the banking system, and the indicative ceilings on reserve money. The definition of the limits on the contracting and guaranteeing of nonconcessional debt was revised to include the conversion of correspondent account balances to medium-term interstate debt, the conversion of liabilities arising from the incomplete exchange of rubles into soms, and the contracting of new interstate credits with FSU countries whether or not such credits are channeled through the correspondent accounts. The modifications proposed to these limits reflect only their more comprehensive definition.

In addition to the items mentioned in EBS/93/54, Supplement 1, the second review will also focus on the progress made in the structural reform areas relative to the objectives specified in paragraph 14 of the Supplement to the Memorandum of Economic and Financial Policies attached to the authorities' letter of August 12, 1993.

V. Staff Appraisal

The first review under the stand-by arrangement has already provided evidence that the Government's stabilization effort is beginning to take hold. In a very difficult external environment characterized by deepening (and partly unexpected) trade disruptions with neighboring republics, adverse shifts in terms of trade mainly on account of energy, and unforeseen shortfalls and delays in foreign financing, the Kyrgyz authorities are making a determined effort to implement--within the limited political room for manoeuver--the macroeconomic policies under the program broadly as designed. As a result of these efforts, and in particular as a result of the separation from the instability of the ruble area through the introduction of the national currency, inflation has been contained, notwithstanding very substantial corrective price adjustments, and there has been a significant build up of convertible gross reserves. However, the progress on macroeconomic policies was not matched by similar progress on structural policies, and there were temporary setbacks in a number of areas.

The review also suggested an economy with stronger inflationary pressures, and in a steeper decline than originally forecast (although both may in part reflect weaknesses in the statistical system). Trade with the FSU has fallen very rapidly and, given Kyrgyz Republic's high dependence on such trade, this has exacerbated the decline in production. At the same time, unemployment has remained unsustainably low as enterprises are holding on to workers. While this has slowed the process of restructuring and contributed to the financial difficulties of enterprises, it probably has also limited the build up of political pressures, which otherwise may have jeopardized the Government's reform efforts. However, the delay of labor shedding and the production to inventory have proved to be a very expensive and inefficient way of providing a social safety net and more open unemployment will in the end become unavoidable.

By introducing the national currency, the authorities have assumed full responsibility for the stabilization of the economy. Despite the shortfall in foreign financing, the new currency was off to a relatively successful start. With the som, the authorities introduced a liberal foreign exchange system for both current and capital transactions, which will clearly transmit market signals. The staff would encourage the authorities to continue to resist pressures to rely on exchange restrictions as short-run expedients. In the period ahead, it will instead be necessary to maintain and, if necessary, tighten the stance of monetary and fiscal policy so as to safeguard the external and internal value of the som. The staff found the exchange system free of restrictions and multiple currency practices (except for a restriction arising from the failure to settle outstanding balances on some of the Kyrgyz Republic's correspondent accounts with FSU countries). The system is, however, still untested and the staff therefore did not recommend that the Kyrgyz Republic immediately forego the transitory arrangements under Article XIV.

After some initial difficulties, the foreign exchange auction sales by the NBK into the interbank market are functioning relatively smoothly and the observed exchange rate movements appear to reflect market forces (although the foreign exchange market remains fragmented). Similarly, the partial distribution of refinance credit from the National Bank through the auction procedure constituted an important first step toward a market-based allocation of credit in the economy. The staff fully supports the authorities' intention to keep the development in the interbank foreign exchange market under close review, increasingly channel refinance credit through the auctions, and develop further market-based monetary instruments, in particular, savings instruments that would help mobilize private sector savings. The staff is encouraged by the rising trend in nominal interest rates and urges the authorities to forcefully promote the emergence of positive real interest rates.

The staff welcomes the authorities' strong commitment to prudent fiscal policies as an essential part of the anti-inflation strategy. In view of the deep recession, the shortfall in foreign financing, and the apparent weaknesses in the tax administration, the staff supports the recourse to emergency revenue measures, although these should soon be replaced by more permanent revenue sources. Similarly, the staff is concerned that the expenditure cuts, while unavoidable, will be so severe as to damage the efficiency of the budgetary operations, and may contribute to a re-emergence of arrears. The staff is therefore convinced that the Government must achieve a lasting improvement in tax administration, and strongly supports the authorities' request for technical assistance in this area. A first step in improving the tax administration was recently taken by the authorities, but further improvements will be needed, including a strong political will to collect taxes actively, eliminate exemptions, and impose and enforce stiff penalties for nonpayment. In particular, the practice of enterprises receiving financial relief through delay, or nonpayment, of taxes must quickly and forcefully be brought to an end as an integral part of the Government's overall strategy of improving the governance of enterprises and hardening their effective budget constraints.

Over the medium term, the present comprehensive system of social safety will need to be further streamlined and more narrowly focused on the truly needy. The sharply reduced availability of budgetary resources also calls for reducing the heavy and open-ended burden on the budget stemming from the general subsidy on bread. The staff is encouraged by the progress already made in replacing part of the bread price subsidies with targeted cash transfers, although the latter are costly as they are insufficiently targeted. The staff would urge the authorities to move quickly on these matters, taking account also of the detailed recommendations made by the technical assistance missions of the Fund and the Bank.

In the staff's view, the weak financial performance of the public enterprises remains the major threat over the medium term to the success of the stabilization efforts. The staff therefore fully supports the authorities' decision against a further generalized rescue effort for enterprises that have yet again accumulated domestic arrears. The staff is convinced

that the repeat of any generalized solution would send the wrong signals to enterprise managers, and the costs of such a step would far exceed what could be safely financed either through the budget or through the banking system without endangering the new currency.

The staff regrets that the authorities reacted to the difficult external situation by delaying the progress in abolishing the system of state orders and purchases, as this system prevents the emergence of functioning markets. However, the authorities have confirmed their intention to abolish the system by the end of the year. The staff is also encouraged that the privatization efforts will, with assistance from the World Bank, be revitalized and redirected.

Recent and prospective changes in legislation in various areas will support the institutional and structural reform effort. In this regard, the staff was somewhat disappointed by the delays in passing legislation and by the discrepancy between the degree of reform provided for under the law and day-to-day reality. In particular, the near complete legal liberalization of prices was de facto limited by the heavy-handed influence on price formation now exercised by the Pricing and Antimonopoly Committee. However, the recent decision to remove limits on retail margins and profitability on most goods, and to cut by half the categories of goods whose prices are subject to scrutiny, are major steps in the right direction. The staff would also encourage the authorities to make full use of the new law on bankruptcy once it has been passed by the Parliament.

The recent conversion of the accumulated correspondent account balances and the only partial exchange of rubles for som has saddled the Kyrgyz Republic with significantly increased hard currency debt and debt service obligations. It will therefore be important for the authorities to restrict their reliance on nonconcessional financing, including the recourse to nonconcessional loans from FSU partner countries. This will imply that over the medium term, the overall current account deficit, and particularly that with the FSU area (for which there are apparently no sources of concessional finance), will need to be strictly limited. It will also be important for the authorities to monitor carefully the contracting of new foreign debts in all maturity ranges.

The staff fully appreciates the difficulties facing the Kyrgyz authorities. In the staff's view, the current adversities are mainly a result of the usual problems of transition, together with the irreversible transformation of the external environment facing the Kyrgyz economy, the shortfall in foreign financing, and the unexpected--and difficult to understand--adverse response by some neighboring countries to the introduction of the national currency. In the staff's judgment, stabilization policies and in particular structural reforms will need to be intensified so as to generate quickly the necessary tangible successes, despite the unfavorable external situation, so as to protect the credibility of the overall strategy of the Government. The second review will afford a further opportunity to assess the progress in this area under the program.

The staff is encouraged by the authorities' intentions to develop, with the help of the staffs of the Fund and the Bank, a multi-year program to carry the reform and stabilization forward. The authorities hope that such a program be supported by the Fund with a multi-year arrangement under the ESAF, or its successor facility.

The Kyrgyz Government is implementing a courageous and comprehensive reform and stabilization program and the first signs of success are beginning to show. The authorities remain firmly committed to the overall objectives of the program and have agreed to strengthen their efforts, including particularly on structural policies. Deviations from performance criteria at end-June were relatively limited and the macroeconomic program remains broadly on track, although the economy was more adversely affected by the collapse of FSU trading relationships and the energy price shock than originally expected. Despite the shortfalls in FSU financial assistance, the balance of payments is fully financed for the remainder of the program, albeit at a lower import volume. The staff therefore supports the request for the waivers for nonobservance of some of the performance criteria at end-June and the proposed modifications to the end-September performance criteria. The staff also supports the request for the second purchase under the STF.

It is recommended that the next Article IV Consultation with the Kyrgyz Republic be held on the standard 12-month cycle.

IV. Proposed Decisions

A. 1993 Consultation

1. The Fund takes this decision in concluding the 1993 Article XIV consultation with the Kyrgyz Republic, in the light of the 1993 Article IV consultation with the Kyrgyz Republic conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. The Kyrgyz Republic maintains restrictions on payments and transfers for current international transactions, described in EBS/93/146, in accordance with Article XIV, Section 2. The Fund encourages the Kyrgyz Republic to eliminate these restrictions as soon as circumstances permit.

B. Review under Stand-By Arrangement

1. The Kyrgyz Republic has consulted with the Fund in accordance with paragraph 3 of the stand-by arrangement for the Kyrgyz Republic (EBS/93/54, Supplement 4, 5/14/93), as amended, and paragraph 71 of the memorandum of economic and financial policies attached to the letter of the Prime Minister and the Chairman of the National Bank of Kyrgyzstan dated March 29, 1993.

2. The letter of the Prime Minister and the Chairman of the National Bank of Kyrgyzstan dated August 12, 1993, and the memorandum and tables attached thereto, shall be attached to the stand-by arrangement and their letter of March 29, 1993, as modified, shall be read as supplemented and modified by the letter of August 12, 1993.

3. Accordingly, the performance criteria set out in paragraphs 3 (a), 3 (b) (i) to (iv), and 3 (b) (vi) and (vii), of the stand-by arrangement for September 30, 1993 and December 31, 1993 shall be as specified in Attachment II of the letter of August 12, 1993.

4. The Fund decides that the review contemplated in paragraph 3 (c) of the stand-by arrangement is completed and that, notwithstanding the nonobservance as of June 30, 1993 of the performance criteria set forth in paragraphs 3 (b) (ii), 3 (b) (iii), and 3 (b) (vii) of the stand-by arrangement, the Kyrgyz Republic may proceed to make purchases under the stand-by arrangement up to a cumulative amount equivalent to SDR 11.61 million.

C. Request for Purchase under Systemic Transformation Facility

1. The Fund has received a request by the Government of the Kyrgyz Republic for a purchase equivalent to SDR 16.125 million under the Decision on the Systemic Transformation Facility, (Decision No. 10348-(93/61) STF, adopted April 23, 1993).

2. The Fund approves the purchase in accordance with the request.

Table 1. Kyrgyz Republic: Selected Economic Indicators, Estimates and Projections, 1990-93 1/

	1990	1991	1992 <u>2/</u>	1993	
				Orig. prog. proj.	Rev. proj.
NMP, nominal <u>3/</u>	6.0	14.9	137.0	3,226.5	5,981.2
GDP, nominal <u>3/</u>	8.3	15.6	200.5	4,452.5	8,254.0
Real GDP growth (in percent)	4.0	-5.0	-19.0	-16.3	-21.2
GDP deflator (percent change)	5	107	1,487	482	1,040
Wages (period average)					
Minimum wage <u>4/</u>	145	150	633	15	21
Real minimum wage index (1990=100)	100	56	24	18	18
Average wage <u>4/</u>	219	349	2,146	44	67
Real average wage index (1990=100)	100	81	50	33	36
(In percent of GDP)					
Revenues and grants	38.5	35.2	12.7	16.6	12.5
Expenditures	38.3	30.4	26.2	23.5	17.6
Fiscal Balance	0.2	4.8	-13.5	-6.9	-5.1
Gross domestic expenditure <u>5/</u>	...	...	108.7	120.5	116.6
Consumption	...	...	86.4	99.0	90.2
Private	...	87.2	61.4	77.2	74.1
Public	...	...	25.0	21.8	16.1
Gross investment	...	...	22.3	21.5	26.4
Private <u>6/</u>	...	...	21.1	19.8	25.0
Public	...	...	1.1	1.7	1.4
National saving-investment balance <u>5/</u>	...	...	-8.7	-20.5	-16.6
Private <u>6/</u>	...	...	4.7	-13.7	-11.5
Public	...	...	-13.4	-6.9	-5.1
Current Account	...	10.8	-8.7	-20.5	-16.6
Exports	...	41.7	26.3	32.4	19.4
Imports	...	43.2	35.0	52.9	36.0

Sources: Data provided by the authorities; and staff projections and calculations.

1/ All percent changes and growth rates are with respect to the previous period.

2/ 1992 figures differ from those in EBS/93/54, Supplement 1 due to new information on real GDP growth and changes in exchange rate assumptions.

3/ Billions of rubles through 1992; millions of som thereafter.

4/ In rubles through 1992; som thereafter.

5/ Based on very incomplete national income accounts statistics.

6/ Includes public sector enterprises and accumulation of inventories.

Table 2. Kyrgyz Republic: Prices and Wages ^{1/}

		Consumer Prices		Wholesale Prices		Nominal Wages		Index of Real Wages (1990=100)	
		Percent Change	Index (1990=100)	Percent Change	Index (1990=100)	Minimum	Average	Minimum	Average
1990	average	...	100	...	100	145	219	100	100
1991	Q1	...	115	...	159	...	227	...	90
	Q2	59.8	184	42.5	226	...	276	...	69
	Q3	5.9	194	30.4	295	...	321	...	75
	Q4	27.3	247	21.1	358	...	497	...	92
	Average	85.0	185	159.6	260	150	349	56	81
1992	January	157.0	717	383.0	1,872	350	725	34	46
	February	29.4	928	78.7	3,345	350	789	26	39
	Q1 March	15.8	1,074	6.2	3,553	350	956	23	41
	April	17.9	1,267	10.6	3,930	350	1,052	19	38
	May	4.3	1,321	2.9	4,043	350	1,159	18	40
	Q2 June	5.2	1,390	48.6	6,009	350	1,547	17	51
	July	8.2	1,504	4.9	6,303	350	1,735	16	53
	August	4.8	1,576	-1.7	6,196	350	1,723	15	50
	Q3 September ^{2/}	26.9	2,000	48.4	9,195	800	2,362	28	54
	October	26.3	2,526	9.4	10,059	800	2,695	22	49
	November ^{3/}	22.8	3,102	19.6	12,030	1,600	4,166	36	61
	Q4 December	22.2	3,790	33.1	16,013	1,600	6,849	29	82
	Average	85.4	1,766	2,550	6,879	633	2,146	24	50
1993	January	46.3	5,545	41.9	22,722	1,600	5,598	20	46
	February ^{4/}	39.9	7,757	46.3	33,242	3,200	7,410	29	44
	Q1 March	24.4	9,650	30.0	43,215	3,200	8,610	23	41
	April	16.6	11,252	25.0	54,018	16	43	20	35
	May	21.4	13,660	34.3	72,547	16	48	16	32
	Q2 June	17.1	15,996	19.1	86,403	16	54	14	31
	July	16.5	18,635	9.5	94,611	16	54	12	26
	August ^{5/}	21.0	22,548	15.0	108,803	28	94	17	38
	Q3 September	6.0	23,901	5.4	114,700	28	94	16	36
	October	9.0	26,052	7.5	123,303	32	103	17	36
	November	4.5	27,225	4.0	128,235	32	103	16	35
	Q4 December	3.9	28,292	3.9	133,262	32	103	16	33
	Average	893.3	17,543	1,129.7	84,588	21	67	18	36

Sources: Goskomstat through June 1993; authorities and staff projections thereafter.

^{1/} Wages in rubles through March 1993; som thereafter.

^{2/} Minimum wage increased to rub 800 on September 1, 1992.

^{3/} Minimum wage doubled on November 1, 1992.

^{4/} Doubling of minimum wage and increase in budgetary wages by 50 percent on February 1, 1993.

^{5/} Minimum and average budgetary wages increased by 75 percent on August 1, 1993; also a further 25 percent increase of minimum and budgetary wages over February base is projected for on October 1, 1993.

Table 3. Kyrgyz Republic: Summary of Consolidated Government Operations, 1992-93

	1992 Total Actual	1993				
		Total	First Half		Second Half	
			Orig. Prog.	Prel. Actual	Orig. Prog.	Rev. Prog.
			(In billions of rubles)		(In millions of soms)	
<u>Total revenue</u>	<u>25.5</u>	<u>1,027.7</u>	<u>408.0</u>	<u>317.3</u>	<u>495.4</u>	<u>710.4</u>
Tax	22.4	713.4	290.6	238.4	376.8	475.0
VAT	7.7	231.7	96.2	85.2	128.8	146.5
Excises	2.8	106.4	76.0	20.8	98.9	85.6
Personal income taxes	2.7	75.1	21.9	34.9	26.4	40.2
Profit taxes	7.8	196.6	76.1	74.5	97.5	122.1
Other	1.5	103.7	20.5	23.1	25.2	80.6
Nontax revenue	3.1	125.4	23.4	60.1	24.5	65.5
Local measures and residual	--	24.7	12.0	2.4	12.1	22.3
Recurring grants <u>1/</u>	--	164.0	82.0	16.3	82.0	147.6
<u>Total expenditure and net lending</u>	<u>52.4</u>	<u>1,446.8</u>	<u>634.0</u>	<u>576.3</u>	<u>575.4</u>	<u>870.5</u>
Net lending	12.1	160.9	139.3	162.6	--	-1.7
Current expenditure	38.0	1,010.3	374.1	361.9	434.1	648.4
Wages and salaries	9.6	252.5	96.5	96.5	117.0	156.0
Goods and services	10.2	358.8	95.2	154.5	144.4	204.4
Transfers and welfare	10.5	318.2	147.6	95.4	143.5	222.8
Defence	1.1	9.5	10.6	4.2	10.6	5.3
Disaster relief	5.7	32.9	12.2	11.4	4.6	21.5
Interest payments	0.9	38.4	11.9	--	14.1	38.4
Capital expenditure	2.3	111.7	38.6	35.5	59.2	76.2
Recurring grants <u>1/</u>	--	164.0	82.0	16.3	82.0	147.6
<u>General government budget balance</u>	<u>-26.9</u>	<u>-419.0</u>	<u>-226.0</u>	<u>-259.0</u>	<u>-80.0</u>	<u>-160.0</u>
<u>Financing</u>	<u>26.9</u>	<u>419.0</u>	<u>-226.0</u>	<u>259.0</u>	<u>80.0</u>	<u>160.0</u>
External	5.7	108.6	51.0	28.6 <u>2/</u>	80.0	80.0
Domestic	21.2	310.4	175.0	230.4	--	80.0
			(In percent)			
<u>Memorandum items</u>						
Ratios to GDP						
Overall budget balance	-13.4	-5.1	-11.9	-9.4	-3.1	-2.9
Total revenue	12.7	12.5	21.4	11.5	19.4	12.9
Of which: tax revenue	11.2	8.7	15.3	8.7	14.8	8.6
Total expenditure and net lending	26.2	17.5	33.3	21.0	22.6	15.8
Of which: current expenditure	19.0	12.3	19.6	13.2	17.0	11.8

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

1/ Includes grants from the U.S., the Netherlands, the EEC, and UNDP. The expenditures have not been distributed across economic categories.

2/ Use of the proceeds of a commercial bank loan. The expenditure has been included in net lending.

Table 4. Kyrgyz Republic: Summary Monetary Accounts, 1992-93

(In millions of soms)

	1992 Dec.	Mar.	1993			
			Prog. Proj. June	Prel. June 1/ June	Revised Program Projections	
					Sept.	Dec.
I. National Bank						
Net foreign assets	-54.5	-303.7	-379.0	-424.3	-568.6	-571.4
Net international reserves	0.6	5.2	-67.0	-8.4	-111.2	-84.0
Claims on ruble area	-55.1	-308.9	-312.0	-415.9	-457.4	-487.4
Medium-term NBK obligations 2/	--	--	--	--	--	-60.0
Net domestic assets	207.6	545.9	665.0	666.3	919.0	1,042.0
Credit to government, net	116.8	240.4	293.0	388.2	428.1	468.1
Credit to other government, net 3/	-0.1	-0.1	--	-0.1	-0.1	-0.1
Counterpart funds 4/	--	--	-3.0	--	-21.8	-32.6
Credit to banks and other items, net	90.8	305.5	375.0	278.1	512.8	606.6
Credit to banks	179.6	399.4	457.0	503.4	587.8	682.6
Other items, net 5/	-88.8	-93.8	-82.0	-225.3	-75.0	-76.0
Liabilities	153.1	242.2	286.0	241.2	350.4	410.6
Currency in circulation 6/	90.9	157.2	183.0	180.7	250.6	292.7
Reserves	61.4	84.6	102.0	60.4	99.8	118.0
Other deposits	0.8	0.4	1.0	--	--	--
Exchange rate valuation	--	--	--	0.7	--	--
II. Banking System						
Net foreign assets	-38.3	-284.1	-352.0	-347.5	-485.6	-488.4
Medium-term NBK obligations 2/	--	--	--	--	--	-60.0
Net domestic assets	289.3	641.9	885.0	839.0	1,200.0	1,392.9
Credit to government	107.0	202.8	282.0	337.4	377.3	417.3
Credit to other government 3/	-7.3	-18.3	-7.0	-25.2	-25.2	-25.2
Counterpart funds 4/	--	--	-3.0	--	-21.8	-32.6
Credit to the economy and other items, net	189.5	457.4	613.0	526.7	869.7	1,033.4
Credit to the economy	343.7	650.6	765.0	857.7	1,014.7	1,180.4
Other items, net 5/7/	-154.2	-193.2	-152.0	-331.0	-145.0	-147.0
Liabilities	251.0	357.8	533.0	496.9	714.4	844.5
Currency outside banks 6/	89.5	155.8	182.0	157.5	215.4	254.7
Deposits	161.4	202.0	351.0	339.4	499.0	589.9
Exchange rate valuation	--	--	--	-5.4	--	--

Sources: National Bank of Kyrgyzstan; and IMF staff projections.

1/ At program exchange rates (soms 4/US\$).

2/ Reflects disbursement of the loan from Turkey.

3/ Includes Pension Fund, Employment Fund, public organizations, insurance company, and post and telecommunications.

4/ Frozen at the NBK; excluding budgetary use of counterpart funds which is limited to som 40 million and som 80 million for end-September and end-December 1993, respectively. The limit on net credit to the Government will be adjusted upward for any short-fall in available counterparts, provided that this adjustment does not exceed the equivalent of som 40 million.

5/ In June, 1993, reflects a very large growth (in absolute value) in the domestic float.

6/ The movement between March and June was affected by the incomplete conversion of rubles into som.

7/ Includes net claims on union government.

Table 5. Kyrgyz Republic: Consolidated Balance of Payments, 1992-94

(In millions of U.S. dollars)

	1992	1993			1994
	Rev. Est.	Rev. Proj.	First Half	Second Half	
Current account (excluding official transfers)	-73.7	-405.2	-198.8	-206.3	-450.1
(including official transfers)	-73.7	-288.1	-140.0	-148.1	-429.3
Trade balance	-73.7	-279.3	-151.6	-127.6	-314.3
Exports, f.o.b.	257.9	326.0	138.0	187.9	440.1
FSU states	234.7	262.2	110.4	151.8	325.4
Energy	23.6	69.1	28.3	40.8	122.6
Other	211.1	193.1	82.1	111.1	202.8
Other countries	23.2	63.7	27.6	36.1	114.7
Imports, c.i.f.	331.6	605.2	289.7	315.6	754.3
FSU states	316.7	371.7	196.8	174.9	446.9
Energy	85.8	153.6	69.4	84.2	195.3
Other	230.9	218.1	127.4	90.7	251.7
Other countries	14.9	233.5	92.8	140.7	307.4
Services (net)	-13.0	-95.2	-31.8	-63.3	-105.0
Of which: technical assistance <u>1</u> / interest (net)	--	-18.5	-8.5	-10.1	-18.3
	--	-3.1	--	-3.1	-11.0
Transfers (net)	13.0	86.3	43.4	42.9	-10.0
Official	--	117.0	58.8	58.2	20.8
Private	--	-30.7	-15.4	-15.3	-30.8
Capital account	4.0	156.5	61.2	95.3	195.0
Medium- and long-term loans	4.0	154.5	60.4	94.1	190.0
Disbursement	4.0	158.9	62.0	96.9	196.0
FSU	...	15.1	--	15.1	--
Of which: Russia	...	11.6	--	11.6	--
Non-FSU	...	143.8	62.0	81.8	196.0
Amortization	--	-4.4	-1.6	-2.8	-6.0
Direct investment	--	2.0	0.8	1.2	5.0
Errors and omissions	33.7	-66.7	-66.7	--	--
Overall balance	-36.0	-198.3	-145.5	-52.8	-234.3
Financing	36.0	198.3	145.5	52.8	-19.2
NBK reserves <u>2</u> / IMF	--	-4.7	2.1	-6.8	-30.0
Purchases	--	72.7	36.1	36.6	10.8
Repurchases	--	72.7	36.1	36.6	10.8
Commercial banks	--	--	--	--	--
FSU correspondent accounts	-7.0	-4.2	-4.2	--	--
Utilization (net)	43.0	-31.1	111.5	-142.6	--
Of which: Russia	43.0	134.5	111.5	23.0	--
Reduction in liabilities through conversion	33.3	54.0	42.3	11.7	--
Debt conversion	--	-165.6	--	-165.6	--
Of which: Russia	--	165.6	--	165.6	--
	--	120.8	--	120.8	--
Financing gap	--	--	--	--	253.5

Table 5. Kyrgyz Republic: Consolidated Balance of Payments, 1992-94 (Concluded)

(In millions of U.S. dollars)

	1992		1993		
	Rev.	Rev.	First	Second	
	Est.	Proj.	Half	Half	1994
<u>Memorandum items:</u>					
Export volume <u>3/</u>					
Total	100	94	48	47	67
FSU states	100	76	41	35	45
Other countries	100	226	98	128	235
Import volume <u>3/</u>					
Total	100	121	65	56	105
FSU states	100	85	50	35	62
Other countries	100	882	378	504	1,011
Terms of Trade <u>3/</u>	100	65	63	69	71
Current account balance (percent of GDP)					
(including official transfers)	-8.2	-17.2	-18.0	-17.1	-15.1
(excluding official transfers)	-8.2	-24.3	-25.5	-23.8	-15.8
End of period gross official reserves (U.S. dollar millions)	0.3	64.0	49.9	64.0	94.0
(in months of total imports)	--	1.3	1.0	1.3	1.5
(in months of non-FSU imports)	--	3.3	3.2	3.3	3.7
Net energy balance (U.S. dollar millions)	-62.2	-84.5	-41.1	-43.4	-72.7
Debt service ratio (percent) <u>4/</u>	--	2.3	1.2	3.1	3.6
Debt service ratio (percent) <u>5/</u>	--	11.8	5.8	16.4	13.7
End-year external debt (U.S. dollar millions) <u>6/</u>	43.0	370.0	216.4	370.0	570.9
Debt/GDP ratio (percent)	1.2	22.2	13.0	22.2	20.1

Sources: The Kyrgyz authorities; and staff projections.

1/ Excluded from the original balance of payments projections for 1991-1993.

2/ Includes gold and convertible foreign exchange balances.

3/ Indices of export and import volumes and the terms of trade are based on 1992=100.

4/ Calculated with respect to total merchandise exports.

5/ Calculated with respect to total merchandise exports to non-FSU countries.

6/ Includes outstanding purchases from IMF and the balances on correspondent accounts converted to a medium-term loan in July 1993. Excludes the Kyrgyz share of the former Union debt that was assumed by the Russian Federation under a zero option agreement signed by the two countries in 1992.

Table 6. Kyrgyz Republic: Medium-Term Outlook, 1993-99

(In millions of U.S. dollars)

	1993 Rev. Proj.	1994	1995	1996	1997	1998	1999
Current account (excluding official transfers)	-405.2	-450.1	-391.9	-311.8	-238.8	-175.3	-161.2
(including official transfers)	-288.1	-429.3	-367.0	-285.2	-211.3	-162.6	-148.1
Trade balance	-279.3	-314.3	-243.4	-165.4	-93.7	-30.7	-16.8
Exports f.o.b.	326.0	440.1	543.7	657.7	774.0	913.5	996.8
FSU states	262.2	325.4	383.2	443.4	507.6	581.7	629.3
Energy	69.1	122.6	139.9	158.7	180.2	205.1	234.0
Other	193.1	202.8	243.3	284.7	327.4	376.5	395.4
Other countries	63.7	114.7	160.4	214.3	266.3	331.9	367.5
Imports, c.i.f.	605.2	754.3	787.1	823.1	867.7	944.3	1,013.6
FSU states	371.7	446.9	464.3	484.2	505.0	527.2	567.0
Energy	153.6	195.3	207.6	222.3	238.0	254.8	275.6
Other	218.1	251.7	256.7	261.8	267.1	272.4	291.5
Other countries	233.5	307.4	322.8	338.9	362.6	417.0	446.6
Services (net)	-95.2	-105.0	-120.6	-119.6	-119.3	-119.6	-120.4
Of which: technical assistance <u>1/</u>	-18.5	-18.3	-20.9	-22.6	-23.4	-10.7	-11.2
interest (net) <u>2/</u>	-3.1	-11.0	-14.5	-17.4	-18.6	-19.4	-19.3
Transfers (net)	86.3	-10.0	-3.0	-0.2	1.7	-12.3	-10.9
Official	117.0	20.8	24.9	26.7	27.5	12.7	13.2
Private	-30.7	-30.8	-27.9	-26.9	-25.9	-25.0	-24.1
Capital account	156.5	195.0	37.5	14.8	6.3	-17.5	-12.0
Medium- and long-term loans	154.5	190.0	27.5	-0.2	-13.7	-42.5	-37.0
Disbursement	158.9	196.0	91.1	33.0	34.1	35.2	36.3
FSU	15.1	--	--	--	--	--	--
Of which: Russia	11.6	--	--	--	--	--	--
Non-FSU	143.8	196.0	91.1	33.0	34.1	35.2	36.3
Amortization	-4.4	-6.0	-63.6 <u>3/</u>	-33.2	-47.8	-77.7	-73.3
Direct investment	2.0	5.0	10.0	15.0	20.0	25.0	25.0
Errors and omissions	-66.7	--	--	--	--	--	--
Overall balance	-198.3	-234.3	-329.5	-270.4	-205.0	-180.1	-160.1
Financing	198.3	-19.2	-20.0	-23.4	-28.5	-17.1	-13.7
NBK reserves <u>4/</u>	-4.7	-30.0	-20.0	-20.0	-20.0	-10.0	-10.0
IMF	72.7	10.8	--	-3.4	-8.5	-7.1	-3.7
Purchases	72.7	10.8	--	--	--	--	--
Repurchases	--	--	--	-3.4	-8.5	-7.1	-3.7
Commercial banks	-4.2	--	--	--	--	--	--
FSU correspondent accounts	-31.1	--	--	--	--	--	--
Utilization (net)	134.5	--	--	--	--	--	--
Reduction in liabilities							
through conversion	-165.6	--	--	--	--	--	--
Debt conversion	165.6	--	--	--	--	--	--
Financing gap	--	253.5	349.5	293.7	233.5	197.2	173.8

Table 6. Kyrgyz Republic: Medium-Term Outlook, 1993-99 (Concluded)

(In millions of U.S. dollars)

	1993 Rev. Proj.	1994	1995	1996	1997	1998	1999
Memorandum items:							
Export volume ^{5/}							
Total	94	67	74	92	103	117	124
FSU states	76	45	43	43	45	45	47
Other countries	226	235	303	457	530	645	684
Import volume ^{5/}							
Total	121	105	105	115	129	137	146
FSU states	85	62	55	52	50	47	47
Other countries	882	1,011	1,153	1,452	1,802	2,053	2,254
Terms of trade (1992=100) ^{5/}	65	71	73	75	75	75	76
Current account balance (percent of GDP)							
(including official transfers)	-17.2	-15.1	-9.7	-6.3	-3.9	-2.5	-2.0
(excluding official transfers)	-24.3	-15.8	-10.4	-6.8	-4.4	-2.7	-2.2
End of period gross official reserves							
(U.S. dollar millions)	64.0	94.0	114.0	134.0	154.0	164.0	174.0
(in months of total imports)	1.3	1.5	1.7	2.0	2.1	2.1	2.1
(in months of non-FSU imports)	3.3	3.7	4.2	4.7	5.1	4.7	4.7
Net energy balance							
(U.S. dollar millions)	-84.5	-72.7	-67.7	-63.6	-57.7	-49.7	-41.6
Debt service ratio (percent) ^{6/}	2.3	3.9	14.4	8.2	9.7	11.4	10.7
Debt service ratio (percent) ^{7/}	11.8	14.8	48.7	25.2	28.1	31.4	29.0
End-year external debt							
(U.S. dollar millions) ^{8/}	370.0	724.4	1,001.3	1,191.5	1,302.7	1,350.4	1,373.3
Debt/GDP ratio (percent)	22.2	22.8	23.7	23.4	21.6	18.9	16.8

Sources: The Kyrgyz authorities; and staff projections.

^{1/} Excluded from the original balance of payments projections for 1991-1993.

^{2/} Includes interest on the financing of the gaps.

^{3/} Reflects repayment of an EC loan of US\$28.4 million contracted in 1992, all of which is repayable in 1995.

^{4/} Includes gold and convertible foreign exchange balances.

^{5/} Indices of export and import volumes and the terms of trade are based on 1992=100.

^{6/} Calculated with respect to total merchandise exports. Includes financing of the gaps.

^{7/} Calculated with respect to total merchandise exports to non-FSU countries. Includes financing of the gaps.

^{8/} Includes outstanding purchases from IMF and balances on correspondent accounts converted to a medium-term loan in May 1993. Also includes the financing of the gaps. Excludes the Kyrgyz share of the former Union debt that was assumed by the Russian Federation under a zero option agreement signed by the two countries in late 1992.

Table 7. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets

		1992	1993	1993		1993	
		Dec.	March	June	June	Sept.	Dec.
		Actual	Actual <u>1/</u>	Actual	Limit	Limit	Limit
(End-of-period stocks, in millions of U.S. dollars)							
1. Floor	Net international reserves of the NBK in convertible currency	0.307	14.8	-2.1	-16.7	-27.8	-21.0
(End-of-period stocks, in millions of rubles for December 1992 and March 1993; in millions of soms thereafter)							
2. Ceiling	Net domestic assets of the NBK	41,523	98,574	666	665	919	1,042
	Indicative ceiling	57,793	116,802	839	885	1,200	1,393
3. Indicative ceiling	Reserve money	30,627	48,438	241	286	351	411
4. a. Ceiling	Banking system net claims on the Government <u>2/</u>	21,407	41,813	337	282	378	418
	Adjusted limit	--	--	--	322 <u>3/</u>	--	--
(In millions of rubles)							
	b. Ceiling						
	Cumulative use of counterpart funds by the Government	--	--	--	51	40	80
(In millions of U.S. dollars)							
5. Ceiling	Outstanding stock of debt of less than one year <u>4/</u>	--	13.8	13.8	13.8	13.8	13.8
6. Ceiling	Contracting of nonconcessional debt with maturities: <u>5/</u>					<u>June-Dec. 6/</u>	<u>June-Dec. 6/</u>
	- 1 to 5 years	--	--	10.0	--	15	15
	- 1 to 12 years	--	--	10.0	30	225	225
7. Ceiling	Accumulation of new external arrears	--	--	--	--	--	--

Source: Memorandum on Economic and Financial Policies (EBS/93/54) and EBS/93/54, Supplement 2 and 5; letter from the authorities dated August 12, 1993.

1/ Valued at the program exchange rate of rub 800 per U.S. dollar.

2/ Excluding all counterpart funds. The end-September and December limits will be adjusted upward to som 40 million for any shortfall in the availability of counterpart funds.

3/ Adjusted upward by som 40 million because of the shortfall in the availability of counterpart funds.

4/ Excludes normal import financing; liabilities on the correspondent accounts with FSU countries are regarded as normal import financing.

5/ Excludes loans already contracted with the Government of Turkey (US\$75 million), China (yuan 30 million) and the EC (ECU 32 million).

6/ Now includes the conversion of correspondent account balances to medium-term interstate debt, the conversion of liabilities arising from the incomplete conversion, and the contracting of new interstate credits with the FSU.

Table 8. Kyrgyz Republic: Schedule of Purchases
Under the Systemic Transformation Facility
and the Stand-By Arrangement

Amount of Purchase (in million of SDRs)			Scheduled Availability Date	Contingent on <u>1/</u>
<u>STF</u>	<u>SBA</u>	<u>Combined</u>		
16.125	9.675	25.800	Purchased upon Board approval	
16.125	1.935	18.060	On or after September 1, 1993	Completion of first program review
--	7.740	7.740	On or after December 1, 1993	Observance of quantitative performance criteria as of September 30, 1993 and comp- letion of pro- gram review
--	7.740	7.740	On or after February 15, 1994	Observance of quantitative performance criteria as of December 31, 1993

Source: STF and stand-by arrangement

1/ In addition to standard conditions, including performance criteria on the exchange and trade system.

Table 9. Kyrgyz Republic: Projection of IMF Position During the
Period of Financing Under the Systemic Transformation
Facility and Proposed Stand-by Arrangement

	<u>1993</u>			<u>1994</u>
	Apr. - June	July- Sept.	Oct. - Dec.	Jan. - Mar.
<u>(In thousands of SDRs)</u>				
Purchases				
Tranche policies	9,675	1,935	7,740	7,740
Special facilities	16,125	16,125	--	--
Ordinary resources	25,800	18,060	7,740	7,740
Total Fund credit				
Outstanding (end of period)	25,800	43,860	51,600	59,340
Tranche policies	9,675	11,610	19,350	27,090
Special facilities	16,125	32,250	32,250	32,250
<u>(In percent of quota) 1/</u>				
Total Fund credit				
Outstanding (end of period)	40.0	68.0	80.0	92.0
Tranche policies	15.0	18.0	30.0	42.0
Special facilities	25.0	50.0	50.0	50.0

1/ Kyrgyzstan's quota is SDR 64.5 million.

Table 10. Kyrgyz Republic: Indicators of Capacity to Repay the Fund, 1993-1999

	1993	1994	1995	1996	1997	1998	1999
<u>(In millions of SDRs)</u>							
Purchases	51.6	7.7	--	--	--	--	--
Outstanding use of Fund credit	51.6	59.3	59.3	56.9	50.7	45.6	42.9
IMF obligations	0.7	1.5	1.5	3.9	7.4	6.0	3.2
Repurchases	--	--	--	2.4	6.2	5.1	2.7
Charges	0.7	1.5	1.5	1.4	1.2	0.9	0.6
<u>(In percent)</u>							
Outstanding use of Fund credit as a ratio of:							
GDP	4.3	2.9	2.2	1.7	1.3	1.0	0.8
Exports (total)	22.2	18.9	15.2	12.0	9.1	6.9	6.0
Exports (non-FSU)	11355	72.4	51.5	36.8	26.3	19.0	16.1
External debt	17.9	13.7	13.1	12.5	11.5	11.3	11.5
Official reserves	113.0	88.4	72.5	58.9	45.5	38.5	34.1
Quota	80.0	92.0	92.0	88.3	78.7	70.8	66.6
Debt service obligations to the IMF as a ratio of:							
Exports (total)	0.3	0.5	0.4	0.8	1.3	0.9	0.4
Exports (non-FSU)	1.5	1.9	1.3	2.5	3.8	2.5	1.2
Total debt service	13.0	13.5	2.9	12.2	16.5	9.3	5.6
Official reserves	1.5	2.3	1.8	4.0	6.6	5.0	2.5
Quota	1.1	2.4	2.3	6.0	11.5	9.2	4.9

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

Kyrgyz Republic: Fund Relations

(As of July 31, 1993)

I. Membership Status

(a) Date of Membership	May 8, 1992
(b) Status	Article XIV

II. General Department (General Resources Account)

	(In millions of SDRs)	(In percent of quota)
(a) Quota	64.5	100.0
(b) Total Fund Holdings of Currency	90.3	140.0
(c) Reserve Tranche Position	--	--

III. SDR Department (In percent of allocation)

(a) Holdings	0.89	...
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IV. Outstanding Purchases and Loans: (In percent of quota)

Stand-by arrangements	9.68	15.0
Systemic Transformation Facility	16.13	25.0

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR millions)	Amount Drawn
Stand-by	5/12/93	4/11/94	27.09	9.68

VI. Projected Obligations to Fund (SDR millions based on existing use of resources and present holdings of SDRs):

	Overdue 6/30/93	Forthcoming				
		1993	1994	1995	1996	1997
Principal					2.4	6.2
Charges/interest		0.7	1.5	1.5	1.4	1.2
Total		0.7	1.5	1.5	3.8	7.4

VII. Exchange Rate Arrangement

As of May 15, 1993, the currency of the Republic of Kyrgyzstan is the som (100 tyin = 1 som). The National Bank of Kyrgyzstan publishes daily the exchange rate of the som in terms of the U.S. dollar and the Russian ruble, which it calculates from the transaction rates in the Bishkek interbank foreign currency market.

VIII. Article IV Consultation

The Premembership Review (SM/92/64, dated March 18, 1992) was considered by the Executive Board on April 10, 1992. On May 12, 1993 the Executive Board approved an 11-month stand-by arrangement and the first purchase under the STF. The first Article IV consultation discussions were held between July 20 and August 7, 1993.

IX. Resident Representative

The first resident representative of the Fund in Kyrgyzstan, Mr. Harry Trines, took up his post in Bishkek on August 25, 1992. A long-term advisor to the National Bank, Mr. Tanaka, will take up his post in October 1993.

X. Technical Assistance

The attached table provides information on the Fund's technical assistance activities in Kyrgyzstan.

Kyrgyz Republic: Technical Assistance, 1992-93

Dept.	Subject/Identified Need	Timing	Counterpart
FAD	Budgetary procedures and public expenditure management	March 1992	Ministry of Economics and Finance
MAE	Accounting and internal audit, banking supervision, foreign exchange operations and management, the payments system, monetary policy implementation, money market development and domestic debt management.	April 1992	National Bank of Kyrgyzstan
MAE	Follow-up on previous mission plus: monetary and banking legislation, monetary research and analysis, and organization and management of the NBK.	July 1992	National Bank of Kyrgyzstan
FAD	Tax administration	October 1992	Ministry of Economics and Finance
MAE	Foreign exchange operations, monetary operations, legal, government securities	December 1992	National Bank of Kyrgyzstan
FAD	Social safety net	January/February 1993	Ministry of Economics and Finance
MAE	Currency handling and reform (including visits on the issue of the new currency by currency specialists)	February, April 1993	National Bank of Kyrgyzstan
INS	Macroeconomic policy course and macroeconomic seminar	March 1993	Interagency/interdepartmental
MAE	Modernization of the central bank	April 1993	National Bank of Kyrgyzstan
STA	Money and banking statistics	May 1993	National Bank of Kyrgyzstan
MAE	Modernization of the Central Bank and advice on national currency introduction	May 1993	National Bank of Kyrgyzstan
STA	Money and banking statistics	May 1993	National Bank of Kyrgyzstan
MAE	Follow-up to the May mission	September 1993	National Bank of Kyrgyzstan
STA	National income accounts and prices	September 1993	National statistical agency
FAD	Public expenditure management	October 1993	Ministry of Economics and Finance
FAD	Tax administration and tax policy	October 1993 (tentative)	Ministry of Economics and Finance

Kyrgyz Republic: Relations with the World Bank

The Kyrgyz Republic became a member of the World Bank on September 18, 1992, of IDA on September 24, 1992, and of IFC on February 11, 1993. The first World Bank economic mission visited Bishkek in February 1992. Other economic missions to the Kyrgyz Republic followed in April and October 1992 and January-February 1993. The first Country Economic Memorandum (CEM), "Kyrgyzstan: Crisis in Transition" was distributed to the World Bank Executive Board in December 1992.

Several World Bank missions also visited the Kyrgyz Republic to prepare and appraise the first lending operation, a Rehabilitation Credit. On May 13, 1993 the IDA Rehabilitation Credit was approved by the World Bank Board and disbursements began on August 2 following approval by the Presidium of the Kyrgyz Parliament and fulfillment of the necessary legal requirements by the Kyrgyz authorities.

As part of the economic and sector work program, the Bank teams are working, or will soon start to work on the following tasks: (i) trade study; (ii) mining sector study; and (iii) second CEM. A draft for the second CEM, which was initiated with a July-August 1993 mission, will be finalized in November 1993 and submitted to the Consultative Group meeting in December 1993.

As part of the lending program, preparations for operations in privatization and enterprise reforms, social safety net, and the telecommunications sector are at an advanced stage, and preparations for an operation in the power sector will start in September. An appraisal mission for the Privatization and Enterprise Reform Credit will be in the field in September 1993. The Credit is expected to be submitted to the World Bank Board for consideration in January 1994.

The next Consultative Group Meeting to address the Kyrgyz Republic's financing needs for 1994 is tentatively scheduled for December 1-2, 1993 in Paris.

August 12, 1993

Dear Mr. Camdessus:

In the attached supplement to the Memorandum of Economic and Financial Policies, we report on developments in our economy since the introduction of the national currency in May of this year and describe the policy objectives and intentions of the government for the second half of 1993. The introduction of the som was a key element of our comprehensive reform and stabilization program, and we are grateful for the international support our efforts are beginning to receive. We appreciate the support already provided by the International Monetary Fund through a Stand-by Arrangement and a first purchase under the Systemic Transformation Facility.

Most of the performance criteria and all the indicative targets for June 1993 were observed and, where there were deviations, these were relatively minor. Thus, the targets for reserve money, net domestic assets of the banking system, and the floor on international reserves were met with large margins, and broad money growth was also well below projections. However, the end-June performance criteria on net domestic assets of the National Bank and net credit from the banking system to the general government were not observed as a result of difficulties in monitoring and, with respect to the latter, also a shortfall in foreign financing in excess of the compensating adjustment permitted; also the performance criterion on the contracting of nonconcessional debt with maturities between one and five years was not observed as a result of a small loan for a pharmaceutical firm. We therefore request a waiver from the Fund for the non-observance of these performance criteria. We also request the modification--as specified in the second attachment to this letter--of several of the performance criteria for end-September, 1993, to take account of recent developments, including in particular, the conversion of correspondent account balances into medium-term credits; the second attachment also proposes quantitative performance criteria and indicative targets for end-December.

Our economy continues to be very severely affected by the collapse of traditional trading relationships with FSU countries and rising prices of imported energy. We therefore intend to request a second purchase under the Systemic Transformation Facility in an amount equivalent to SDR 16.125 million.

Although in the area of structural reform significant progress has been achieved by putting in place the necessary legislative framework, substantially more time will be needed to effectively transform the economy.

We are, therefore, beginning to develop the outlines of a possible three year program of structural reform and we intend to work closely with the staff of the Fund and the World Bank in this area. In this regard, we hope that Kyrgyzstan will become eligible for the use of resources under the ESAF, or its successor facility, once such a facility is established.

Sincerely,

Sincerely,

Tursunbek Chyngyshev
Prime Minister

Kemelbek Kasymkulovich Nanayev
Chairman, National Bank of Kyrgyzstan

Attachments

Michel Camdessus
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
U.S.A.

Supplement to the Memorandum of Economic and Financial Policy

1. Since the introduction of our national currency, the som, in May 1993, we have implemented relatively tight monetary and fiscal policies. As a result, there has already been some progress on inflation, despite corrective price adjustments and the severe shortfall in imports due to unexpected delays in foreign financing, both from our FSU partner countries and Western donors. Trading relations with our neighboring countries continue to be severely disrupted, and our economy is contracting at a faster rate than anticipated.
2. On the budget, we are experiencing increasingly severe difficulties in revenue mobilization due to the deepening recession and administrative difficulties in collecting taxes. Moreover, Parliament has rejected several tax measures we had hoped to implement. We have sharply limited even essential expenditures so as to avoid as much as possible reliance on domestic bank financing despite a shortfall in foreign assistance. Although the program provided for a partial adjustment for the shortfall in foreign loans, the limit on bank financing of the budget was slightly exceeded.

The decline in real budgetary wages, minimum wages, pensions, and allowances by 68 percent from their last adjustment in February until July of this year, had led to an unsustainable situation. These incomes were increased by 75 percent effective August 1, 1993. This increase was also necessitated by the need to compensate for additional, very large corrective pricing measures taken at that time. We tripled bread prices in early May to limit the need for budgetary subsidies, and increased these prices effective August 1, 2 1/2 fold. At the same time, very sharp increases in rents and associated utilities took place, together with price adjustments in petroleum products and gas. We have made budgetary provisions for a further increase of these incomes by 25 percent over the end-February base, effective October 1, 1993, when further large bread price adjustments will be made.

3. Under the program, the budget deficit (after foreign grants) was to be limited to som 80 million in the second half of 1993 (equivalent to about four percent of GDP). While we can no longer achieve the original nominal budget target because of the recession and a much higher price level, we intend to limit the budget deficit in the second half of 1993 to som 160 million.

The Government's initial revision of the budget for the second half of 1993 would, however, have resulted in a deficit in the order of som 500 million, including higher than expected income adjustments, and the clearance of arrears on the bread subsidy to bakeries. The budgetary cost of the wage increase and income transfers, such as family allowances, stipends, and pensions (an extrabudgetary item), that are linked to the minimum wage, will total approximately som 76 million for the last 5 months of 1993.

To limit the deficit sharply, the Government undertook expenditure cuts of approximately som 200 million and revenue measures yielding an estimated

som 140 million. Expenditure measures included cuts in almost all functional areas of the budget, including the reduction in the public health budget from som 155 million to 93 million (although this still represents a substantial increase in this item above the original program estimate). Expenditures on the "national economy" were reduced from som 328 million to 226 million, and interest rate subsidies that were to be granted to enterprises were eliminated, except for a small amount that had already been provided.

On the revenue side, the Government will introduce as an emergency measure for a limited time a 5 percent turnover tax to be levied on all sectors except agriculture and energy, and the bread industry. This tax is estimated to generate som 38 million in the latter part of 1993 and will become effective on August 16. The Government also intends to realize som 10 million from the sales of rare earth metals, stockpiled by the Government. In addition the Government intends to raise som 20-30 million through improved collections of excise taxes and customs duties, som 15-20 million through improved collections of VAT and a similar figure for the enterprise profit tax. Actions that are envisaged to improve collection include the taxing of barter and transactions on credit, more aggressive collection of tax arrears, and strengthening the authority of the Ministry of Economy and Finance over the State Tax Inspectorate and customs agencies. Local measures will be expected to generate som 10 million in additional revenues. Adjustments in the excise tax on petroleum (from 15 to 20 percent with this tax being collected at the borders effective August 17) and customs duties (through an expansion of the list of commodities subject to duties) will raise another som 20 million in revenues. We have identified additional expenditure cuts of som 30 million to compensate for any shortfall in tax collection.

4. To support the national currency, monetary policy has been relatively restrictive. At end-June, reserve money and broad money were both below their indicative targets and the indicative ceiling for net domestic assets of the banking system was also observed. However, we very slightly exceeded for technical reasons the limit on net domestic assets of the National Bank of Kyrgyzstan (NBK).

5. We remain committed to reducing inflation to low single digit monthly rates by end-December which is an ambitious target because of rising import prices and the need for further price corrections. Starting from their end-June levels, we intend to keep the rate of growth of broad money and currency in circulation in the second half of 1993 below the projected rate of increase in nominal GDP. We will limit recourse by the budget to net domestic bank financing in the second half of 1993 to som 80 million (1.3 percent of GDP), with the balance of the deficit (som 80 million) financed from counterparts to foreign loans. Domestic bank borrowing will be at market rates. However, additional bank financing of up to som 40 million could be used to compensate for any shortfall or delay in counterparts generated. Any such use of additional bank credit for the budget will be reversed once counterparts become available. As a result of the strict limitations on the financing of the budget, there is considerable room in the credit expansion for the rest of the economy.

6. With the new currency we have begun to rely increasingly on an auction system for the allocation of refinance credit, and interest rates on such credit have more than doubled in nominal terms to over 100 percent per annum. In view of recent developments in neighboring countries, that gave rise to considerable pressure on our currency, there is a need for higher interest rates. A recent treasury bill auction resulted in interest rates of over 120 percent, and we expect future credit and treasury bill auctions to result in even higher nominal rates. In conjunction with the projected decline in inflation, we expect positive real interest rates to emerge in the last quarter of 1993. We are also continuing to refine further our monetary instruments and are in particular considering the introduction of a lombard facility and appropriate savings instruments to mobilize savings from the general public. Also, we have discontinued extending preferential interest rates and interest subsidies.

7. With the som, we introduced an exchange system generally free of restrictions. Under this system, the exchange rate in the interbank market is determined through auctions. Due to an initial shortage of U.S. dollar bank notes, but not any official action, a significant difference between the interbank rate for non-cash transactions, and the rate for cash transactions emerged. However, with the importation of substantial amounts of U.S. dollar bank notes, this discrepancy has now been overcome. Also, limitations on the participation and the size of the bids submitted in the auction were eased in recent weeks. We intend to further refine the auction procedures as we are gaining experience and, in any case, limit the amounts auctioned consistent with the targeted build-up of gross international reserves under the program.

8. Notwithstanding our intentions to maintain a free foreign exchange system for all transactions, we had to take recourse to emergency measures to protect our currency at the time when Russia unexpectedly announced its intention to declare ruble notes issued before 1993 invalid. In any case, these temporary restrictions on transactions involving ruble notes have now been lifted.

9. In the first half of 1993, and in particular around the time of the introduction of the som, the trading relationships with our traditional partners in the FSU were severely disrupted. Moreover, financial assistance from these partner countries fell short of what we had reason to expect on the basis of the Consultative Group meetings. In addition, new credits from FSU partner countries are now being extended on commercial terms and there has been a significant delay in the disbursement of foreign assistance from Western donors. As a result, the volume of imports has declined below expectations while at the same time the prices of imported energy increased sharply. These factors have aggravated the decline of our economy.

We have agreed with Kazakhstan, Russia, and Uzbekistan in July to a restructuring of the balances under the correspondent accounts into medium term credits. In addition, we expect that the difference between rubles issued in Kyrgyzstan and rubles withdrawn at the time of the introduction of the som will also be converted into interstate debt to Russia, or the CBR. As explained in Appendix II, we request that appropriate adjustments be made

to the limits on contracting new foreign loans because these credits are on nonconcessional terms.

We expect that a substantial amount of donor assistance, including from the World Bank and Japan, will become available in the second half of 1993. We therefore foresee an improved import situation which should help to mitigate the recession and to meet the targeted reserve build-up under the program. In this regard we would like to point out that we have managed our foreign exchange reserves very carefully despite the difficult external financial picture. We expect the balance of payments for the second half of 1993 to be fully financed.

10. As regards incomes policies, other than those described above under the budget, we continue to rely on an effective hardening of the budgetary constraint of enterprises rather than direct controls. We are, however, monitoring the enterprises carefully, in particular those that have difficulties in meeting their financial obligations.

11. Reflecting the decline in production, the loss of markets, and the tightening of financial policies, there has been a substantial reemergence of domestic payment arrears. We have made a firm decision against a further rescue operation through either the budget, or involving subsidize credits from the banking system, so as to protect the value of the new currency. The government is working closely with the enterprises on finding appropriate solutions on a case by case basis fully consistent with the program targets. In this regard, we intend to make full use of the bankruptcy law which is expected to be adopted by Parliament in its fall session.

12. As regards structural policies, the Government's plans for the introduction of private land ownership in agriculture were rejected by the Supreme Soviet and these rights were not incorporated in the new constitution. Privatization in agriculture has been facing a number of difficulties because of the lack of an overall policy. Nevertheless, the Government is in the process of designing an overall agricultural reform program to renew the reform efforts. In other sectors, privatization is progressing, although in many instances this has not yet led to the required changes in management, increase in management autonomy, and the transformation of enterprises into smaller and more efficient units. The process of privatization has also lacked some transparency and will now be opened to the broader public. As agreed with the World Bank, we intend to limit the use of collectivization of enterprises and to auction off government held shares of joint stock companies in which at present the Government directly or indirectly maintains control. The privatization of housing is progressing. In general our privatization efforts will be guided by the concept paper developed jointly with the World Bank, which Parliament is scheduled to approve in its fall session.

13. We remain committed to abolishing fully the system of state orders and state purchases in industry and agriculture by the end of the year. However, because of the shortfall in FSU financing and the collapse of traditional trading system with FSU partners, there has been an increased

reliance on barter trade. As a result, state orders and purchases have been temporarily maintained to allow bilateral commitments to be met. We recognize that the forced delivery for exports and to the domestic market has contributed to the weak financial performance of enterprises and the renewed emergence of large domestic arrears. This in turn has aggravated the decline in production.

Although nearly all retail prices have already been legally liberalized, most prices remain under the scrutiny of the Pricing and Antimonopoly Committee. Moreover, limits on retail mark-ups and profit margins were temporarily introduced shortly after the introduction of the national currency. However, we fully recognize the need for substantial progress in these areas, once the immediate emergency situation has eased.

14. As contemplated in the Memorandum of Economic and Financial Policies of March 29, 1993, we intend to review with the Fund the progress made in structural reform as part of the second review under the stand-by arrangement. We are determined to make progress in a number of areas before the second review. Specifically we intend to:

i. eliminate by August 15 all limits on retail mark-ups and profit margins except for certain foodstuffs and reduce by 50 percent the list of manufactured products whose prices are now subject to the scrutiny of the Pricing and Antimonopoly Committee;

ii. reduce significantly all state orders and state purchases in industry and agriculture in order to meet the agreed goal of their complete elimination by year-end;

iii. privatize at least 25 percent of road transportation by auctioning off trucks;

iv. eliminate all export and import licensing requirements except those required to safeguard national security and public health;

v. allow all enterprises freedom to engage in the production of their choice, trade freely among themselves, and lift all restrictions on market entry. Ease restrictions on domestic wholesale and retail trade.

As explained in the letter of August 12, 1993 of the Prime Minister and the Chairman of the National Bank of Kyrgyzstan, we have set out below the proposed performance criteria and indicative targets for end-December, 1993 and the proposed modifications to the performance criteria and indicative targets for end-September, 1993. References to paragraphs and annexes are to the Memorandum of Economic and Financial Policies attached to the letter of the Prime Minister and the Chairman of the National Bank of Kyrgyzstan dated March 29, 1993, as modified by their letters of May 5, 1993 and June 11, 1993.

- * Paragraph 62 and Annex I of the Memorandum--
Performance criteria on net international reserves of the NBK in convertible currency

	<u>End Sept. 1993</u>	<u>End Dec. 1993</u>
Before (US\$ millions)	-27.8	-21.0 *
New (US\$ millions)	-27.8	-21.0

- * Paragraph 63 and Annex II--
Performance criteria on net domestic assets of the National Bank of Kyrgyzstan

	<u>End Sept. 1993</u>	<u>End Dec. 1993</u>
Before (som millions)	809	930 *
New (som millions)	919	1,042

- * Paragraph 63 and Annex II--
Indicative ceilings on net domestic assets of the banking system

	<u>End Sept. 1993</u>	<u>End Dec. 1993</u>
Before (som millions)	1,073	1,265
New (som millions)	1,200	1,393

- * Indicative target.

Any impact on the net domestic assets of the NBK and the banking system stemming from the conversion into medium-term interstate debt of net balances recorded in favor of other FSU countries in the NBK's correspondent accounts will be excluded for program monitoring purposes to the extent that the resulting increase in government deposits in the National Bank is blocked. Thus, for the purposes of calculating the Net Domestic Assets of the NBK and the Banking System as defined Annex II of the Memorandum of Economic and Financial Policies, balances in these correspondent accounts which are converted into interstate medium-term debt shall, to the extent that such conversion gives rise to a blocked government deposit in the NBK, be treated as though they were still balances in the correspondent accounts.

* Paragraph 64 and Annex III--

Performance criteria on net credit from the banking system to the general Government

	<u>End Sept. 1993</u>	<u>End Dec. 1993</u>
Before (som millions)	282	282 *
New (som millions)	378	418

We also propose that the end-September and end-December limits will be adjusted upward up to som 40 million for any shortfall in the availability of counterpart funds, in the same manner as provided for with respect of the end-June limits.

* Paragraph 64 and Annex III--

Performance criteria on cumulative use of counterpart funds by the Government

	<u>March-Sept. 1993</u>	<u>March-Dec. 1993</u>
Before (som millions)	86	131 *
	<u>June-Sept. 1993</u>	<u>June-Dec. 1993</u>
New (som millions)	40	80

* Paragraph 65--

Indicative ceilings on reserve money

	<u>End Sept. 1993</u>	<u>End Dec. 1993</u>
Before (som millions)	322	363
New (som millions)	351	411

* Paragraph 66 and Annex IV--

Performance criteria on contracting of nonconcessional medium- and long-term debt

<u>1-5 year maturity</u>	<u>End June to End Sept. 1993</u>	<u>End June to End Dec. 1993</u>
Before (US\$ millions)	0	0 *
New (US\$ millions)	15	15
<u>1-12 year maturity</u>	<u>End June to End Sept. 1993</u>	<u>End June to End Dec. 1993</u>
Before (US\$ millions)	30	30 *
New (US\$ millions)	225	225

* Indicative target.

For the purposes of the end-September and end-December performance criteria, the definitions set out in Annex IV of the Memorandum of Economic and Financial Policies shall be amended to include within the contracting and guaranteeing of nonconcessional external debt: (i) the conversion of net balances recorded in the correspondent accounts in the NBK into medium-term, interstate debt; (ii) the contracting of debt agreements with Russia covering the difference between ruble notes supplied by the CBR to the NBK and the notes returned to the CBR as a result of the introduction of the som; and (iii) the contracting of new interstate credits with FSU countries whether or not such credits are channeled through the correspondent accounts.