

**EXECUTIVE
BOARD
MEETING**

EBS/20/24
Supplement 2

March 24, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Kyrgyz Republic—Request for Purchase Under the Rapid Financing
Instrument and Disbursement Under the Rapid Credit Facility—
Informational Annex**

Board Action: Executive Directors' **consideration** (Formal)

Tentative Board Date: **Thursday, March 26, 2020**

Publication: Yes*

Questions: Mr. Josz, MCD (ext. 34021)

Document Transmittal
in the Absence of
an Objection and in
accordance with
Board policy: After Board Consideration—Asian Development Bank, Asian
Infrastructure Investment Bank, European Bank for Reconstruction
and Development, Islamic Development Bank, Organisation for
Economic Cooperation and Development, World Trade Organization

*The authorities have indicated that they consent to the Fund's publication of this paper.



KYRGYZ REPUBLIC

March 24, 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT AND DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—INFORMATIONAL ANNEX

Prepared By

Middle East and Central Asia Department
(In collaboration with other departments)

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RELATIONS WITH THE FUND

(As of February 29, 2020)

Membership Status: Joined: May 8, 1992

Article VIII

General Resources Account:	SDR million	Percent of Quota
Quota	177.60	100.00
Fund Holdings of Currency (Exchange Rate)	177.45	99.91
Reserve Tranche Position	0.31	0.18

SDR Department:	SDR million	Percent Allocation
Net Cumulative Allocation	84.74	100.00
Holdings	106.78	126.00

Outstanding Purchases and Loans:	SDR million	Percent of Quota
RCF Loans	4.44	2.50
ECF Arrangements	97.04	54.64

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
RCF/RFI	March xx, 2019	xxx	88.8	88.8
ECF	April 8, 2015	April 7, 2018	66.60	57.08
ECF	June 20, 2011	July 7, 2014	66.60	66.60
ESF	December 10, 2008	June 9, 2010	66.60	33.30

Projected Payments to the Fund ^{1/}

(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2020	2021	2022	2023	2024
Principal	17.76	17.13	16.17	16.17	13.32
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	17.76	17.13	16.17	16.17	13.32

^{1/} When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Status of HIPC and MDRI Assistance

On November 30, 2011, the Executive Board considered the addition of income and indebtedness criteria for end-2010 to the HIPC Initiative framework, which resulted in the removal of the Kyrgyz Republic from the ring-fenced list of eligible countries.

Safeguards Assessments

An update assessment with respect to the new ECF approved by the IMF Board on April 8, 2015 was completed on October 5, 2015. The assessment concluded that the National Bank of the Kyrgyz Republic (NBKR) continues to have significant vulnerabilities in the legal structure, particularly in governance arrangements. The audit committee's authority remains limited, as it only has an advisory role vis-à-vis the NBKR Board. The Banking Law, which was adopted by Parliament in September 2016, did not address all safeguards recommendations. Furthermore, the Office of the President requested amendments before signing the Law that claw back some of the improvements in central bank independence in the version originally approved by the Parliament. Key outstanding safeguards concerns include the composition of the NBKR Board, which is comprised only of executive members. Previous assessments were completed in October 2011, April 2009, October 2005, and January 2002.

Exchange Rate Arrangements

The currency of the Kyrgyz Republic has been the som (100 tiyn = 1 som) since May 10, 1993. The de jure exchange rate arrangement is floating arrangement. The NBKR participates and intervenes in the interbank foreign exchange market to limit exchange rate volatility as necessary. The de facto exchange rate arrangement was reclassified to stabilized from other managed, effective January 26, 2018. The NBKR publishes daily the exchange rate of the som in terms of the U.S. dollar, which is determined in the interbank foreign exchange market. The official exchange rate of the som against the dollar is calculated as the daily weighted average of the exchange rates used in the purchase and sale transactions of dollars conducted in the foreign exchange market through the Automated Trade System (ATS) of the NBKR for the reporting period from 3:00 pm of the previous trading day to 3:00 pm of the current trading day. The government uses the official exchange rate for budget and tax accounting purposes as well as for all payments between the government and enterprises and other legal entities.

The Kyrgyz Republic maintains a multiple currency practice (MCP) arising from the use of the official exchange rate for government transactions. The official rate may differ by more than 2 percent from market rates because it is based on the average transaction weighted rate of the preceding day. The authorities intend to continue to use the official exchange rate for government transactions. Staff does not recommend approval of this MCP.

Kyrgyz Republic maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions, except for the MCP discussed above and exchange restrictions maintained for security reasons relating to the restriction of financial

transactions and the freeze of accounts of certain individuals or organizations associated with terrorism pursuant to (i) relevant U.N. Security Council resolutions; and (ii) the list of current terrorist organizations designated by the U.S. Secretary of State. The authorities have notified these measures to the Fund in May 2007.

Article IV Consultations

The Kyrgyz Republic is on a 12-month consultation cycle. The 2019 Article IV consultation discussions were held in March 2019 and were completed by the Executive Board in June 2019.

FSAP Participation and ROSC Assessment

An FSAP update mission in July 2013 reviewed progress since the 2007 assessment, and the Board discussed the Financial System Stability Assessment (FSSA) along with the fifth ECF review in December 2013. The FSSA was not published. A fiscal ROSC mission was held in March 2001 and the ROSC Fiscal Transparency Module was published on March 13, 2002. A data ROSC mission was held in November 2002 and the ROSC Data Module was published in November 2003. A fiscal ROSC reassessment was held in September 2007.

Resident Representative

The eleventh resident representative of the Fund in the Kyrgyz Republic, Mr. Poghosyan, took his post in Bishkek in March 2019.

RELATIONS WITH OTHER INTERNATIONAL INSTITUTIONS

(As of March 23, 2020)

Asian Development Bank:

- Country page: <https://www.adb.org/countries/kyrgyz-republic/main>
- ADB projects and results: <https://www.adb.org/countries/kyrgyz-republic/results>

European Bank for Reconstruction and Development:

- Country page: <https://www.ebrd.com/kyrgyz-republic.html>
- EBRD projects: <https://www.ebrd.com/work-with-us/project-finance/project-summary-documents.html?1=1&filterCountry=Kyrgyz%20Republic>

World Bank Group:

- Country page: <https://www.worldbank.org/en/country/kyrgyzrepublic>
- Overview of Word Bank Group lending: <https://financesapp.worldbank.org/en/countries/Kyrgyz%20Republic/>
- IBRD-IDA project operations: http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=KG

TECHNICAL ASSISTANCE PROVIDED BY THE FUND

(January 2014–March 2019)

FAD	Tax Administration Enforcement (Module 6—TPA TTF)	January 8–22, 2014	Ministry of Finance, State Tax Service, State Customs Service
	Public Finance Management	May 2–13, 2014	Ministry of Finance
	Public Finance Management	December 5–18, 2014	Ministry of Finance
	Public Finance Management	April 23–May 7, 2015	Ministry of Finance
	Tax Policy (Impact of the Accession to the EEU)	April 29–May 13, 2015	Ministry of Economy
	Public Finance Management (Fiscal risk disclosure)	September 17–October 1, 2015	Ministry of Finance
	Public Investment Management Assessment Information-Gathering	December 14–16, 2015	Ministry of Finance, Ministry of Economy
	Public Investment Management Assessment	January 27–February 10, 2016	Ministry of Finance, Ministry of Economy
	Managing Government Wage Expenditure	March 15–28, 2016	Ministry of Finance, Ministry of Labor
	Treasury and Accounting Reform and Fiscal Risks Disclosure	September 19–30, 2016	Ministry of Finance
	Government Subsidies Review: Energy Subsidy and Social Protection	February 22–March 7, 2017	Ministry of Finance
	Treasury and Accounting Reform and Fiscal Risks Disclosure	April 17–27, 2017	Ministry of Finance
	A Rules-Based Fiscal Framework	June 13–26, 2017	Ministry of Finance
	Financial Management Information System Strategy	July 14–25, 2017	Ministry of Finance
	Incorporation of Fiscal Rules in the Budget Code	December 11–15, 2017	Ministry of Finance
MCM	Operational Advice on Improving the Monetary Policy Framework	February 3–14, 2014	National Bank of the Kyrgyz Republic
	Operational Advice on Improving the Monetary Policy Framework	April 20–28, 2015	National Bank of the Kyrgyz Republic
	Strengthening Near-Term Modeling and Forecasting Capacities	April 18–29, 2016	National Bank of the Kyrgyz Republic
	Medium-Term Debt Management Strategy	April 20–28, 2016	Ministry of Finance
	Strengthening Banking Supervision	May 24–June 1, 2016	National Bank of the Kyrgyz Republic
	Monetary Policy and Inflation Targeting Framework	April 10–25, 2017	National Bank of the Kyrgyz Republic
	IFRS 9 Training for NBKR Banking Supervisors	May 29–June 2, 2017	National Bank of the Kyrgyz Republic Banking Supervisors

	Monetary Policy and Inflation Targeting Framework – Follow Up	April 4–13, 2018	National Bank of the Kyrgyz Republic
	Inflation Targeting	October 29–November 14, 2018	National Bank of the Kyrgyz Republic
	Cyber Security	March 6–20, 2019	National Bank of the Kyrgyz Republic
	Strengthening the Payment System Oversight	May 2019	National Bank of the Kyrgyz Republic
	Strengthening Monetary Policy Operations	September 2019	National Bank of the Kyrgyz Republic
LEG	AML/CFT Follow-up	February 2014	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	January 2015	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	June 2015	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	October–November 2015	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	January 2016	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	April 2016	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT risk-based supervision and SFIS IT workflow procedures	June/July 2016	National Bank of Kyrgyz Republic, State Financial Intelligence Service
	IT (setting up analytical reporting software)	August 2016	State Financial Intelligence Service
	AML/CFT risk-based supervision (IMF/WB mission)	October 2016	National Bank of Kyrgyz Republic

	Legal Frameworks for Bank Resolution	September 20–22, 2017	National Bank of the Kyrgyz Republic, Ministry of Justice
	AML/CFT supervision (WB/IMF workshop)	October 3–7, 2017	National Bank of the Kyrgyz Republic
	AML/CFT Legal drafting	February 2018	State Financial Intelligence Service
	AML/CFT Legal drafting	July 2018	State Financial Intelligence Service
	AML/CFT supervision (WB/IMF workshop)	October 2018	National Bank of Kyrgyz Republic
LEG/FIN	Safeguards-Related Issues: proposals to strengthen the central bank's governance	July 9–11, 2018	National Bank of Kyrgyz Republic
STA	Price Statistics	March 31–April 11, 2014	National Statistics Committee
	External Sector Statistics	February 16–27, 2015	National Bank of the Kyrgyz Republic
	Monetary and Financial Statistics	April 15–28, 2015	National Bank of the Kyrgyz Republic
	External Sector Statistics	October 26–November 6, 2015	National Bank of the Kyrgyz Republic
	External Sector Statistics	April 4–15, 2016	National Bank of the Kyrgyz Republic
	Quarterly National Accounts	April 11–16, 2016	National Statistics Committee
	Government Finance Statistics	April 11–22, 2016	Ministry of Finance
	Monetary and Financial Statistics	April 13–26, 2016	National Bank of the Kyrgyz Republic
	National Account EDDI2	April 17–28, 2017	National Statistical Committee
	Government Finance Statistics (Training)	April 24–May 5, 2017	Ministry of Finance, the National Bank of Kyrgyz Republic, National Statistical Committee, and the Social Fund
	National Accounts EDDI2	November 6–24, 2017	National Statistics Committee
	Quarterly National Accounts	April 2–20, 2018	National Statistics Committee
	Government Finance Statistics	October 23–27, 2018	Ministry of Finance
	National Accounts EDDI2	November 12–23, 2018	National Statistics Committee
	Government Finance Statistics	May 2019	Ministry of Finance

	Government Finance Statistics	September-October 2019	
	External Sector Statistics	June 24-July 5, 2019	National Bank of Kyrgyz Republic and National Statistics Committee

List of Resident Advisors

FD	Banking Supervision/Restructuring Advisor	Mr. Svartsman	January 2004–January 2005
MFD	Public Debt Policy and Management	Mr. Azarbayejani	December 2002–December 2004
MCM	Debt Management and Development of Government Securities Management	Mr. Riecke	August 2006–June 2011
MCD	Macroeconomic Analysis and Forecasting	Mr. Petkov	January 2010–January 2011
MCM	Banking Supervision/Restructuring Advisor	Mr. Svartsman	October 2010–April 2013
LEG	Long-Term Banking Advisor	Mr. Zaveckas	August 2012–April 2014
MCM	Banking Supervision/Restructuring Advisor	Mr. Svartsman	July 2013–January 2014
MCM	Banking Supervision/Restructuring Advisor	Ms. Sonbul Iskender	January 2016–July 2019

STATISTICAL ISSUES

Data provision is adequate for surveillance. The four institutions responsible for collecting, compiling and disseminating macroeconomic statistics—the National Statistics Committee (NSC), the Ministry of Economy, the Ministry of Finance, and the National Bank of the Kyrgyz Republic (NBKR)—have legal and institutional environments that support statistical quality, and their respective staff are well-versed in current methodologies.

The NSC maintains a comprehensive and regularly updated website with data that largely incorporate international methodological recommendations with adequate coverage and timeliness (<http://www.stat.kg>). In February 2004, the Kyrgyz Republic subscribed to the SDDS.

National Accounts

In general, dissemination of national accounts statistics is timely. Technical assistance has been received from the IMF, EUROSTAT, OECD, the World Bank, and bilateral donors. While significant progress has been made in improving the national accounts estimation process, problems persist regarding the quality of the source data. Efforts are needed to improve the quality of the source data for quarterly GDP estimates. Moreover, while the quarterly GDP estimates are disseminated on a discrete basis for SDDS purposes, these estimates are still derived from cumulative data. Difficulties also remain in properly estimating the degree of underreporting, especially in the private sector.

Five IMF technical assistance missions on national accounts were conducted during the period 2016–18. The first two missions in April 2016 and April 2017 contributed to the development of quarterly source data on a discrete basis. The next three peripatetic missions contributed to the compilation of quarterly GDP estimates based on discrete quarterly data. The latest mission conducted in November 2018 finalized the compilation of quarterly GDP estimates for 2010–17. The NSC is planning to disseminate discrete quarterly estimates of GDP by June 2019.

These missions also contributed to the improvement of annual GDP estimates by: (i) reducing the discrepancies between GDP by production and expenditure; and (ii) improving the estimates of imputed rent of owner-occupied dwellings.

Price and Labor Market Statistics

The concepts and definitions used in the CPI, which has been published since January 1995, are broadly consistent with international standards. The price index covers all urban resident households of all sizes and income levels, but needs to cover rural households, which comprise the majority of the population.

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

Progress has been made in computing unit value indices for imports and exports. Work continues regarding computation of these indices using a standard index presentation and the development of an export price index. However, problems in customs administration have led to incomplete coverage of trade and the lack of an appropriate valuation system. Moreover, the data processed by customs have suffered due to the use of an outdated computer software system.

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

Government Finance Statistics

The Kyrgyz Republic has been a beneficiary of a SECO funded three-year project (2016-2019) that aims at improving fiscal transparency. Since 2018 the Ministry of Finance of the Kyrgyz Republic compiles and disseminates annual GFS for the whole general government, including social security funds, and extended the data coverage with balance sheet and functional classification of expenditure. Starting in Q1 2018, the authorities began reporting quarterly general government data for publication in the IFS. The data reported for publication in the GFS Yearbook start in 2012 and cover general government and its subsectors. Data are now being compiled using the GFSM 2014 analytical framework. However, on-lending to loss-making energy state-owned enterprises are incorrectly classified as accumulation of financial assets below the line rather than spending (i.e. transfers) above the line, which is inconsistent with the GFSM Manual.

In May 2018 the Kyrgyz Republic started regularly reporting debt securities and loans to the common WB / IMF quarterly Public Sector Debt Statistics (PSDS) database.

The Ministry of Finance is working on: i) reconciling the deficit and financing data; ii) compiling quarterly data and metadata for all PSDS instruments; and iii) reconciling all macroeconomic statistics.

Monetary and Financial Statistics (MFS)

The NBKR reports regular data using the IMF recommended Standardized Report Forms (SRFs) and covering the central bank balance sheet (SRF 1SR), other depository corporations (SRF 2SR), and other financial corporations (OFCs, SRF 4SR). Going forward, the NBKR needs to expand the coverage of the OFC survey by including insurance corporations, pension funds, and investment funds. The NBKR reports some data and indicators of the Financial Access Survey (FAS), including the two indicators of the U.N. Sustainable Development Goals.

Financial Sector Surveillance

The NBKR reports Financial Soundness Indicators (FSIs) to STA on a regular quarterly basis. All core and additional FSIs relevant for the Kyrgyz Republic are reported.

External Sector Statistics

Starting with 2017, quarterly data on the balance of payments and international investment position (IIP) are compiled and disseminated following the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* basis. Data are disseminated meeting the SDDS required timeliness and periodicity. Further improvements are needed in estimation of shuttle trade and remittances, in coverage of transactions related to direct investment (inward and outward), including investment income, and in cross-border transactions related to gold mining. Also, further work is needed for adjusting the trade statistics to the requirements of Eurasian Economic Union (EAEU) and in reconciling the customs declarations database for the trade with EAEU members and with the rest of the world.

The Kyrgyz Republic participates in the IMF's Coordinated Direct Investment Survey (CDIS), reporting inward and outward direct investment.

The External Debt Division of the Ministry of Finance is in charge of monitoring the public sector external debt and of submitting the gross external debt statistics (GEDS) for all institutional sectors to the World Bank's Quarterly External Debt Statistics (QEDS) database. The compilation of QEDS tables is executed in collaboration with the NBKR; the latter provides inputs on private sector external debt (banks and other sectors).

Kyrgyz Republic: Table of Common Indicators Required for Surveillance
(As of March 23, 2020)

	Date of Latest Observation	Date Received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷
Exchange Rates	2/29/2020	3/9/2020	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	2/29/2020	3/9/2020	M	M	M
Reserve/Base Money	2/29/2020	3/9/2020	M	M	M
Broad Money	1/31/2020	3/12/2020	M	M	M
Central Bank Balance Sheet	2/29/2020	3/9/2020	M	M	M
Consolidated Balance Sheet of the Banking System	1/31/2020	3/12/2020	M	M	M
Interest Rates ²	1/31/2020	3/9/2020	M	M	M
Consumer Price Index	11/31/19	1/31/20	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing ³ —General Government ⁴	1/31/19	1/31/19	M	M	A
Revenue, Expenditure, Balance, and Composition of Financing ³ —Central Government	1/31/19	1/31/19	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	12/31/18	12/31/18	Q	Q	Q
External Current Account Balance	9/30/19	2/20/20	Q	Q	Q
Exports and Imports of Goods and Services	9/30/19	2/20/20	Q	Q	Q
GDP/GNP	3/31/19	3/31/19	M	M	M
Gross External Debt	9/30/18	9/30/18	Q	Q	A
International Investment Position ⁶	9/30/19	2/20/20	Q	Q	Q

¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

³ Foreign and domestic financing only.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I), Not Available (NA).