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INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

Selected Issues and Statistical Appendix

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August 30, 2000

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I. INTRODUCTION¹

1. Since independence in 1991, the Kyrgyz Republic has embarked on an ambitious program of economic reform. Although some of the policies of the former Soviet Union still prevail, the reforms that have taken place are noteworthy in two respects. First, they were both comprehensive and pursued in a fairly rapid fashion. Second, they reduced the role of government in the economy by introducing market forces, largely through mass privatization and price liberalization, and exposed the economy to competitive forces through a liberal trade and investment environment. The goal of this broad agenda was to establish a market-oriented economy and was born of the necessity to deal with the shock caused by the breakup of the Soviet Union, including its central planning, trade relationships, and importantly, the loss to the Kyrgyz Republic of budgetary transfers which had amounted to around 10 percent of its budgetary revenues.

2. With the help from the Fund and other multilateral and bilateral donors, the Kyrgyz authorities moved quickly in the initial stages of reform. As early as 1992, important changes were made to the legal framework (key business laws), most prices were liberalized, mass privatization began and the tax system was almost completely overhauled, with the introduction of a VAT and excise taxes. In 1993, a national currency, the som, was introduced, permitting the authorities to assume full responsibility for monetary policy, and which allowed for international trade to be settled in convertible currencies. In 1994, the trade regime was liberalized as export and import licensing requirements were lifted, export taxes were reduced, and a uniform import tariff of 10 percent was introduced on all non-CIS imports. Also in that year, the government embarked on a comprehensive medium-term economic and structural adjustment program (ESAF, 1994–97) with the following key elements: stabilization of the economy through appropriate monetary and fiscal policies to lay the basis for an acceleration of economic growth; restructuring of the commercial banking system; the acceleration of privatization efforts and the conversion of those state enterprises not being privatized to joint stock companies; and the strengthening of the social safety net.

3. In 1995, a number of developments lessened state control over agricultural activity. Land-use rights were extended from 49 years to 99 years and a unified land registration system was put into place. In 1996, the country was granted observer status at the WTO, and in 1997 reform of the civil service began, which entailed at the start, reducing government employment and improving efficiency through the restructuring of public institutions. In 1998, the Kyrgyz Republic acceded to the WTO and remains the only republic of the CIS to do so thus far. It also entered into a second three-year ESAF arrangement, this time with a focus on promoting private sector investment and mobilizing domestic savings.

¹ Sections I and II written by Robert York.

4. Despite these reforms, recent developments, including those resulting from the financial crisis in Russia, have shown the economy to be less robust than expected. Indeed, the economy remains vulnerable to external shocks, as macroeconomic stability has not yet been achieved and foreign debt and debt service are now at worrisome levels. Moreover, there has been some slowdown in reform with the completion of small scale privatization, and much remains to be done to create a more business friendly environment, including further reduction in licensing and inspection requirements and improvements in corporate governance.

5. This paper describes recent macroeconomic and financial developments (Section II) and highlights a number of important medium- and longer-term policy issues. Section III presents some empirical estimates of potential output growth for the Kyrgyz economy based on a number of different methodologies. Sections IV and V discuss competitiveness and trade policy, while social policy issues, namely poverty alleviation and pension reform, are taken up in Sections VI and VII. Developments in the banking system since 1998 are described in Section VIII, while fiscal issues are discussed in the final section.

II. RECENT ECONOMIC DEVELOPMENTS

6. As in all of the Baltics, Russia and other countries of the former Soviet Union (BRO), output declined in the Kyrgyz Republic over the initial period of transition and did not recover until 1996. Recovery was largely driven by the start-up of production of the Kumtor gold mine, as the contribution of the emerging private sector was still small. Over the next two years, real GDP growth expanded by around 7–10 per cent per annum. This relatively favorable performance came to an abrupt halt, however, in the second half of 1998 with the financial and economic crisis that emerged in Russia and which was exacerbated by domestic fiscal slippage. In the event, the som experienced a sharp depreciation of about 30 percent in dollar terms between end-August and end-December 1998, inflation jumped and economic activity slowed down substantially. Domestic problems were further compounded in 1999 by deteriorating trade relations with Kazakhstan and Uzbekistan, the country's most important CIS trading partners outside of Russia.

A. Moderate but Unbalanced Economic Growth

7. Economic growth in 1998 and 1999 proved rather modest compared with the previous two years. Real GDP expanded by 2.1 percent in 1998, rising to 3.6 percent in 1999. The increase in activity in the latter year was mainly due to **agriculture**, which contributed 4.5 percentage points to overall growth, and to a lesser extent **trade and catering**, as **manufacturing, construction and transport and communications** contracted. Agricultural production grew by nearly 9 percent while services expanded by 5 percent, thus continuing an expansion of that sector which began in the mid-1990s. To a large extent, the relative success in the service sector (in particular, trade and catering) reflects the fact that it was essentially created in the transition to a market economy and did not face the scale of adjustment from central planning (in contrast with the large state-owned enterprises in the industrial sector). The decline in manufacturing was likely due to a number of factors, such

as exchange rate changes which made low-quality Kyrgyz products uncompetitive (for example, in Russia), and which disrupted regional markets for raw material inputs, and a decline in value added from the Kumtor gold mine. At the same time, economic activity softened as a consequence of punitive trade measures imposed by neighboring countries on Kyrgyz exports of cement and other construction materials.

8. Agriculture, which accounts for around 40 percent of GDP, has for the past several years been a source of underlying strength for the Kyrgyz economy. Indeed, in comparing the first half of the 1990s with the second half, only agriculture has increased its share of economic activity. The sector has benefited from favorable weather conditions and from economic reform; in particular, the freeing from controls of agricultural prices and sales, the breakup of most state and collective farms, the introduction of new mechanisms and means of financing and the extension of land use rights. Nonetheless, the expansion of output in this area has been achieved against a background of a serious decline in both the level and growth of productivity. Except for a few commodities (sugarbeet, potatoes, vegetables), yields have not increased since the mid 1990s which suggest that increased factor inputs (the extension of arable land, increase in livestock) account for this growth. Indeed, the current level of agricultural production for most commodities is substantially below that of the pre-independence period. A number of factors are likely hindering more robust growth in this sector: the lack of modern capital equipment; poor quality or lack of inputs (for example, low-yielding seeds, fertilizers and irrigation systems); financial constraints caused by poor access to credit; and the need for better land management. Overall, expansion of production throughout the economy is being hampered by the continuing problem of inter-enterprise arrears (Box 1). Accumulation of arrears creates significant impediments to progress toward market-oriented reform by, among other things, reducing transparency, promoting market inefficiency, and impacting business planning. Inter-enterprise and budget arrears typically result from both a weak regulatory framework and slow corporate restructuring.

9. Over the first half of 2000, real GDP is estimated to have increased by 7.4 percent, again supported by agriculture (which expanded by 11 percent) and a rebound in the construction sector. Preliminary indicators also point to some growth in the manufacturing sector.

B. A Rise in Inflation

10. At least until the onset of the Russia crisis, the monetary authority had achieved a measure of success in reducing **inflation**. Following tight monetary conditions during 1997 and 1998, inflation dropped from around 32 percent in 1996 to just over 10 percent in 1998.

11. During 1999, however, consumer price inflation accelerated, reaching 40 percent by year-end. A number of factors occurring through the year contributed to this outcome. First, price developments were affected by large liquidity injections in April and July; moves designed to limit the issuance of treasury bills and not roll over part of the maturing reverse repos, and rapid repayment of budgetary arrears. Second, increases in excise tax rates and

Box 1. Enterprise Arrears

Overdue payables to foreign and domestic entities, including the budget, amounted to 3 billion soms at the end of 1999, equivalent to 6.3 percent of GDP. Overdue payables rose 4 percent in real terms from 1995, when they amounted to 1.2 billion soms. Overdue payables increased in 1999, with 71 percent of the new arrears accumulated from January through September.

Since 1995, most of the arrears have been accumulated as a result of nonpayment for electricity, agricultural products, and supplies of raw materials and machines to enterprises and retail outlets. Domestic arrears accounted for about 70 percent of the total in 1999. Electricity producers and firms in the nonferrous metallurgy are the major domestic creditors of households and the industrial sector. Externally, most of the arrears are owed to suppliers of gas and oil.

Measures to reduce the stock of arrears have been limited to the imposition of fines for nonpayment of electricity by households and legal entities, including budgetary organizations (except hospitals and jails). If the entity fails to pay for a long period, the services will be disconnected. In case of gas, domestic suppliers have the right to impose fines and penalty fees for overdue payments and are permitted by law to discontinue services except for companies in certain industries, including cement, glass, and sugar.

It is a common practice to make offsets for payments due among budgetary organizations, energy companies, and telecommunication providers. These offsets result in lack of transparency and limit the ability of the government to meet other cash expenditures.

Enterprises and Organizations Arrears (In millions of soms; end-of-period)

	1995	1999
Account receivables	5,007.0	14,824.1
<i>Of which: Overdue</i>	1,035.2	3,361.3
Account payables	6,715.8	19,245.6
<i>Of which: Overdue</i>	1,181.5	3,035.8
Net	-1,708.8	-4,421.5
<i>Of which: Overdue</i>	-146.3	325.5
Memorandum item:		
Gross domestic product	16,145	48,321

Source: National Statistical Committee.

tariffs for electricity and hot water in the first half of the year are estimated by the National Bank of the Kyrgyz Republic (NBKR) to have added more than 14 percentage points to the rise in the consumer price index. Third, increased prices for both (imported) oil products and grain and flour² had a large impact on the outcome (estimated around 40 percent), because of their weight in the consumption basket. In the case of grain, price developments were affected by shortages and a drawdown of state reserves used for payment of gas arrears to Uzbekistan. Finally, the nominal effective exchange rate depreciated by more than 13 percent over the 12-month period. Given that the share of imports in GDP is around 45 percent, the pass through of this depreciation would itself add 6 percentage points to annual inflation.³

12. During the last quarter of 1999 and into 2000, one of the goals of monetary policy was to reduce inflation by withdrawing liquidity resulting from the repayment of budgetary arrears. So far, there has been some success in this regard, as base and broad money grew by only 5 percent over the first half of 2000. This, combined with relative stability of the exchange rate has led to a dramatically improved inflation performance. Indeed, consumer prices rose by only 7.1 percent over the first half of this year, which is the best outcome for a comparable period since 1990. Price developments so far this year were influenced by the impact of tariff increases for electricity and natural gas, and increases in the price of fruits and vegetables early in the year.

C. Wage Developments and the Labor Market

13. In 1998, the **minimum wage** (to which certain wages, social benefits and tax rates are indexed) was raised to som 100 per month and it has remained at that level. With the acceleration of inflation in 1999, the real minimum wage declined by around 26 percent while average real wages fell by around 10 percent. Over the first 5 months of 2000, average real wages began to recover.

14. The average nominal wage in May 2000 was som 1,070 per month (or just over \$22). Compared with the situation in 1998 and with other areas, nominal wage gains have recently been made in the transport and communication, construction and agricultural sectors, although in the latter case, wages remain less than two-thirds of the industrial average. In 1999, the highest salaries were received in finance and insurance (som 3,193 per month), communications (som 2,076), and industry (som 1,579), while the lowest were in education (som 605), culture and the arts (som 563), and forestry (som 418). At the beginning of August, public sector wages were increased, on average by 20 percent, bringing them closer into line with those of the private sector.

² Gasoline prices rose by 138 percent and bread prices by 74 percent over the course of 1999.

³ The direct pass-through would be higher if international trade is mostly dollar denominated.

15. The expansion of output over the past two years has been accompanied by a small rise in recorded **employment**. Over the period 1998–1999, the growth of employment was 1.7 percent, which added 29,000 jobs to the economy. From a sectoral point of view and reflecting the unbalanced nature of economic activity of late, job gains accrued mainly in agriculture, with a slight increase in the service sector. In contrast, the number of workers in industry, construction, and transport and communications fell by 42,000 and their share of total employment now accounts for around 15.4 percent, in comparison with agriculture with a share of nearly 52 percent.

16. Over the past several years, the **working-age population** has grown relatively quickly, and this has resulted in a similar rise in the labor force. In 1998, the latter grew by 1 percent, reaching 2.4 percent in 1999. Employment growth has not kept pace and consequently, unemployment has increased. Total unemployment, defined as the labor force less total employment, reached 137,000 in 1999, or 7.4 percent when expressed as a ratio of the labor force. This is well above the “official” measure of unemployment, which only takes account of those registered with the employment service.⁴ However, the total unemployment rate is itself biased downward, since the measure of total employment includes those employees who have been required by their employers to undertake administrative or vacation (unpaid) leave. Indeed, the World Bank-supported annual household surveys suggest that the “true” rate of unemployment is probably much higher at around 20 percent.

17. The lack of employment opportunities is a serious problem in the Kyrgyz Republic for a number of reasons. First, there are few sources of alternative income and there is not a strong social safety net. A substantial portion of the population thus relies on subsistence farming to survive. Second, it appears that the rise in unemployment is mostly structural in nature and signs of distress in the labor market abound: unemployment in urban areas is on the rise even though much of the industrial sector which is located in these areas has so far resisted structural change that would result in more pronounced layoffs; the share of long-term unemployment (more than one year) in total unemployment is estimated to have climbed; and young people (aged 16–29 years) account for one-third of the unemployed. Without substantial growth in employment over the medium term, efforts to reduce the high level of poverty will likely fail (see Section VI below).

D. External Sector Developments

18. The impact of the financial crisis in Russia on the Kyrgyz Republic was felt most heavily in the external sector, with the **current account deficit** rising to nearly 20 percent of GDP in 1998. In 1999, the deficit fell to slightly more than 16 percent of GDP (or \$200 million). The **trade deficit** declined to \$84.4 million in 1999 from over \$170 million a year earlier. This improvement was largely due to a slump in import demand (by 25 percent)

⁴ The “official” measure of unemployment was 3.1 percent in 1998, declining slightly to 2.9 percent in 1999.

as the som depreciated in real terms: this was larger than the drop of exports (by 19 percent) caused by trade barriers erected by the country's major trading partners (Kazakhstan and Uzbekistan) and by supply constraints in export-oriented activities (light industry, glass). Kyrgyz exports of food stuffs, cement and other building materials to Kazakhstan were virtually halted in 1999 as punitive tariffs were imposed. At the same time, trade with Uzbekistan has been interrupted by frequent border closings and the imposition of high excise taxes on goods from the Kyrgyz Republic. Trade with Russia also suffered both as a consequence of the decline in activity in that country until recently, and difficulties with transporting goods through neighboring countries. However, since the end of 1999, progress has been made in removing some of the intra-regional tariff barriers that were in place through most of 1999, but a number of non-tariff barriers remain, for example, licensing fees for some key products, as well as ecological fees (imposed at the oblast level) for transit through Kazakhstan. A narrowing of the **services deficit** also contributed to the improvement of the current account. In 1999, the services deficit registered \$93.5 million, which was \$24 million lower than a year earlier.

19. Exports of goods and services declined by 13 percent in the first quarter of 2000, compared with a year ago. A reversal of this situation is expected in the near term, given both the recent improvement in the country's international competitiveness (see Section IV below) and regional trade relations. The **real effective exchange rate** has depreciated slightly (2.5 percent) over the course of last year, and into the first few months of this year. Over the same period, the decline in imports slowed to around 7 percent. Overall, there was a small improvement in the current account of the balance of payments.

20. At present, exports are limited both in scope (mainly gold, electricity, tobacco and some agricultural products) and direction, with pre-independence trade patterns (except gold) still prevalent (see Section V). Thus, the authorities are making efforts to diversify and expand the export base. Gold production from the Kumtor gold mine accounts for nearly 40 percent of exports (and 10 percent of GDP). This mine has operated since 1997 but production is expected to end in 2008 (Box 2).

21. The **capital account surplus** was reduced by around \$46 million to \$234 million in 1999 despite higher net borrowing, due to a drop in foreign direct investment. The contraction of (net) **foreign direct investment** to \$44 million in 1999 from above \$100 million in 1998, is a cause for concern. While gross foreign direct investment reached more than \$109 million in 1999, there was an outflow of nearly \$65 million. The nature of this outflow is not fully understood at this time, however, there are indications that existing projects may have been scaled back or cancelled in the trade and catering sector, procurement agencies and the banking sector. **Loan disbursements** were higher (\$28 million) than a year ago and were almost exclusively to the government. **Amortization payments** (including by Kumtor) remained at around \$53 million.

Box 2. The Kumtor Gold Mining Project

In May 1997, the Kumtor Operating Company, which is two-thirds owned by the Kyrgyz Republic and one-third by Cameco, a Canadian company, began gold mining operations in a remote and mountainous area of the Kyrgyz Republic. The construction of the mine cost \$450 million, there was an initial estimate of 16.5 million troy ounces of gold **resources** (based on a gold price of \$350/ounce), and gold production was expected to average around 485,000 ounces a year over the life of the project.

In the event, **probable reserves** were scaled back to around 9 million ounces as production began.¹ Kumtor currently employs over 1,150 employees, of which 90 percent are Kyrgyz nationals. Cumulative gold production during the first three years of operation was 1.755 million troy ounces with an average cost of around \$175/ounce.

In December 1999, the company revised its business plan to account for a number of factors: changes in the price of gold; experience it has gained in operating the mine; and changes to its geological model of the resource base. This plan assumes a gold price of \$310/ounce, with the effect of substantially lowering the remaining **reserve base** to around 4.27 million troy ounces of gold. The following production schedule is envisioned: 649,000 ounces in 2000; 665,000 in 2001; 680,000 in 2002; 716,000 in 2003; 350,000 in 2004, 400,000 in 2005, 250,000 in 2006; 136,000 in 2007; and the mine being decommissioned in 2008. The revised, and accelerated production schedule, not only reflects the lower price of gold, relative to the initial plan but also the desire to retire debt quickly. According to Company officials, Kumtor's debt should be retired in 2003. The authorities were informed of this revised business plan in early 2000.

A great deal of confusion has existed about the extent of the reserve base. The authorities have, until recently, been under the impression that the reserve base is close to the initial estimate provided in the mine-feasibility study (16.5 million ounces). According to the company, however, this figure is related to total resource rather than the reserve base.

22. The **overall balance of payments** was in surplus by \$19.5 million in 1999. This allowed the NBKR to add \$53 million to its gross international reserves, which increased from just over 2 months to over 3 months of **import cover**. Exceptional financing in 1999 equaled \$22.2 million, which wholly represented arrears to Russia, Pakistan, India and Germany. Arrears totaling nearly \$15.8 million were also incurred in the first quarter of 2000 on payments to Russia, Pakistan, India and Turkey. Nonetheless, mid-year, the authorities were successful in agreeing in principle, with Russia, Pakistan and Turkey on a debt rescheduling.

23. **External debt** indicators worsened in 1999. The external debt-to-GDP ratio increased from around 72 percent in 1998 to 112 percent a year later, while the net-present-value of the debt-to-export ratio remained at around 130 percent. This build-up of debt during the past few years reflects a number of influences; a certain lack of fiscal discipline, with deficits averaging about 12 percent of GDP during the past 5 years; a shortage of private sector savings; and a willingness of bilateral and multilateral financial institutions to finance the

large fiscal deficits and an expanding public investment program.⁵ Although much of the newly contracted debt is on highly concessional terms, the debt service profile for the medium term is very difficult.

24. At the end of 1999, the **stock of public external debt** stood at \$1,374 billion⁶, of which \$911 million was owed to multilateral institutions, mostly on a highly concessional basis. A total debt of around \$200 million is owed to the IMF, representing purchases under a stand-by arrangement, the systemic transformation facility in 1993–94 and ESAF. Bilateral debt amounted to \$462 million for which the Russian Federation (\$173 million) and Japan (\$157 million) are the largest creditors. Debt service payments (excluding Kumtor) amounted to \$41.6 million in 1999.

E. Macroeconomic Policies

Fiscal policy

25. **Fiscal policy** is, and has been, perhaps the weakest pillar in the economic policy framework and, given the relative size of the government, this has adversely affected overall economic performance. This weakness is due to a number of factors. On the revenue side, the Kyrgyz Republic has been and remains one of the poorest countries of the former Soviet Union and as such, it had relied heavily on transfers to supplement its own revenue sources. In the transition to a market economy, these revenue sources have not been very strong as a result of slow growth, weak tax administration and distortions in the tax structure which have contributed to a significant amount of underground economic activity.⁷ On the expenditure side, the weaker fiscal revenues have led to severe cuts in current expenditures, although there has been an ever growing public investment program and an attempt to maintain pre-independence levels of social services, support of the poor, and health and education. Fiscal outcomes have also been heavily influenced by relatively little progress in dealing with some of the important budgetary issues (for example, deciding on the appropriate size of the government, the optimal level of energy prices, and dealing effectively with certain large delinquent tax payers) and poor budgetary management, and a lack of transparent rules and legislation.

⁵ The increase in the ratio of debt to GDP is also related to the substantial depreciation of the exchange rate as a consequence of the Russia crisis.

⁶ Excluding Kumtor-related debt which stood at \$318 million in 1999.

⁷ Such tax distortions involve exemptions from taxation of important activities (agriculture) and for some profits, loopholes in customs, the existence of free economic zones (although progress has been made here), and the high burden of payroll taxes that reduces labor demand.

26. In 1998, the overall **cash deficit** of the central government amounted to 9.5 percent as a share of GDP, rising to 12.0 percent in 1999. Over the same period, a **primary deficit** (excluding the foreign-financed private investment program) of 1.7 percent of GDP turned into a surplus of nearly 0.5 percent. Part of the widening of the cash deficit in 1999 was a result of unforeseen expenditures related to an incursion of foreign terrorists in the south of the country in the second half of the year.⁸ Cyclical elements were also at work, as output declines in industry and a drop in imports and a shift in import patterns (an increase in the share of imports originating in Russia and thus not subject to customs duties or VAT),⁹ all contributed to lower-than-expected revenues. Compared with 1998, the ratio of (cash) tax revenues-to-GDP fell in 1999 by 1.6 percent. Structural elements also played a part, as recurrent administrative problems in tax collection and an increase in foreign-financed project spending worked to boost the deficit in the same direction. **Capital spending** increased by more than 3 percentage points of GDP in 1999. **Current expenditures**, however, were reduced, falling by around 2 percent of GDP, with **wages** and **Social Fund contributions** facing the largest cuts. (Developments concerning the Social Fund are discussed in Section VII below). Non-wage **health and education** expenditures also experienced retrenchment.

27. Difficulties with expenditure control, together with revenue shortfalls, led to the accumulation of large expenditure **arrears** in the first half of 1999. However, most of these arrears were paid off in July and at year end, the stock of domestic arrears amounted to around 0.5 percent of GDP.

28. During the first half of 2000, the fiscal situation remained difficult. Parliament rejected several tax measures and revenues initially fell short of expectations. However with the improved economic growth, revenues picked up subsequently and expenditure arrears were eliminated. The government also implemented several measures to improve expenditure management and current expenditures were contained. In particular, they began establishing monthly financial plans and set monthly cash limits, with a view to complying with the IMF's *Minimum Standard on Fiscal Transparency*.

Monetary and exchange rate policies

29. The implementation of **monetary policy** in transition economies remains a challenge, and the Kyrgyz Republic is no exception. These challenges stem from a number of factors. First, the environment is highly uncertain, given the policy changes and structural adjustment

⁸ The direct budgetary impact of this threat to national security was around som 200 million (or 0.4 percent of GDP), which included spending on humanitarian aid, compensation for property damage, and military outlays.

⁹ The Kyrgyz Republic applies the origin principle for VAT on trade with Russia, although it has expressed a desire to move to the destination principle.

that are going on. Second, the low monetization of the economy and lack of financial intermediation, combined with a paucity (until more recently) of monetary instruments, has potentially limited the NBKR's influence over economic activity. Third, monetary policy has been complicated by the fiscal stance. With continued high fiscal deficits and the build up of debt, the monetary authority has had to lean against the wind for much of the post-independence period.

30. A key issue in the conduct of monetary policy has been the erosion of the **demand for soms**. Since mid-1998, the domestic financial crisis, stemming in part from domestic factors, has created pressures on and undermined confidence in the domestic currency following several years of relative stability. The loss of confidence was aggravated by severe problems in the banking system which led to the closure of several of the country's largest banks (Section VIII). Public confidence in the currency will only be re-established by concerted efforts by the NBKR and the government.

31. The implementation of monetary policy during 1999 and into 2000 has been uneven, although the underlying forces for this unevenness lay beyond the control of the monetary authority. Over the first half of 1999, monetary conditions were relatively tight, while over the ensuing six months conditions loosened substantially, only to be reined in over the first few months of 2000. The switch in monetary conditions reflected: the continuing influence of the Russia crisis which contributed to the problems in the banking sector; a decision by the government to repay budgetary arrears in mid-year; and actions by the NBKR to withdraw the excess liquidity resulting from budgetary repayments. In the event, **broad and reserve money** grew by 34 percent and 23 percent, respectively in 1999. In the first half of 2000 these aggregates expanded by 5 percent as the NBKR continued with the tight policy stance it adopted at the start of the year.

32. After much of the difficulties of 1998 passed, the key **central bank rates** were lowered in the first quarter of 1999 to 32 percent, being halved from the levels reached at the height of the Russian crisis. However, with subsequent pressures on the exchange rate mounting, linked in part to the floating of the Kazakh tenge, both the discount (prime interest) and Lombard rates were again raised to levels similar to those prevailing six months before. Indeed, with further pressures on the exchange rate over the rest of the year (due to liquidity injections and problems in the banking sector, mentioned above, as well as seasonal influences), the discount rate was raised even further, ending 1999 at 55.1 percent, thus surpassing the highs of August 1998; although the Lombard rate at 62.4 percent, ended 1999 at a somewhat lower level. With the stabilization gaining ground, both of these central bank rates had been brought down steadily to around 28 percent by the end of June 2000. Meanwhile, the benchmark interest rate on **three-month treasury bills** remained above 50 percent for most of 1999 but it too fell since then to around 16 percent. Interest rate developments on **credits** extended by the banking system tracked the general interest rate trend, although they currently remain at a much higher level (71 percent) and the spread (around 34 percentage points) between loans extended in U.S. dollars versus soms is above that prevailing in the pre-crisis period.

33. In 1997, the som, exhibited a remarkable degree of stability, fluctuating within a relatively narrow band of 17–17.5 soms per U.S. dollar throughout the year. However, for the reasons mentioned earlier, including the Russia crisis, by the end of 1998 it had fallen to 29.4 som per U.S. dollar. Over the course of 1999, despite significant intervention by the NBKR, it depreciated still further as domestic and external events continued to undermine confidence in the currency. In total, the depreciation amounted to more than 55 percent over the year and the som was valued at 45.95 per U.S. dollar at year end. However, the pace of depreciation began to slow in the latter part of 1999 and into 2000. In June, the som stood around som 47 per U.S. dollar.

34. Over time, the NBKR's monetary policy framework has been strengthened and a number of further refinements were recently adopted. The most important of these developments is the introduction of National Bank Bills in June 2000. The main purpose of the NBKR notes issue is to establish a "clean" instrument for monetary policy to manage the money stock, that is separate from the exigencies of managing the state's debt. Moreover, the market for these latter securities is relatively thin. NBKR notes will complement the T-bill market by having shorter maturities (7, 14 and 28 days); by having a substantially larger face value (som 10,000 versus 100 for T-bills); and by focussing its market towards commercial banks or other large investors. Reserve requirements have remained unchanged at 20 percent, however, the compensation paid on bank's required reserves has been steadily reduced. In the past, the NBKR fully compensated banks for required reserves at the rate of each respective bank's weighted average cost of deposits. The level of compensation is now only 55 percent. Minimum capital requirements were raised in August to som 50 million.

F. Structural Reforms

35. Since 1991 the implementation of structural policy measures has progressed to an advanced stage in a few areas, in others some changes have occurred, while in many areas much unfinished business remains. Price liberalization, trade policy and mass privatization are areas where policy makers have achieved a measure of success. The Kyrgyz economy is among the most open of the CIS countries, the more so, if account is taken of their WTO-obligations to reduce already low tariff barriers even further. With regard to small-scale privatization, more than two-thirds of formerly state-owned enterprises are now in private hands.

36. Some progress was made to further liberalize the economy during 1999 and the first half of 2000, these involved: small-scale privatization; regulatory reform; and public sector reform. Significant developments also occurred in the areas of pensions and trade policy, and these are discussed in greater detail below.

37. **Small-scale privatization** continued in 1999 and early 2000, as 178 state-owned enterprises were transformed, some into joint-stock companies, while others were sold directly. However, there was little progress toward divesting interests in the large state-owned monopolies. An international tender for the sale of a 40 percent stake in Kyrgyz Telecom took place, although it was declared void because of the lack of properly filed bids.

(A second tender is due to take place shortly.) In the energy sector, a restructuring and reform plan for KyrgyzEnergo has been adopted with a view to dividing the electricity concern into three separate companies engaged in generation, transmission and distribution, in line with the Action Plan for the World Bank adjustment credit. In addition, a financial adviser was selected to guide the development of the distribution sector. An important part of this reform involved tariff changes, and in this regard, electricity prices were raised in January and April of this year by a combined 40 percent.¹⁰

38. With regard to **regulatory reform**, a draft law has been submitted to parliament that reduces the number of activities requiring licensing from 62 to 32. The practice of sub-licensing has been declared illegal and efforts have been made to reduce excessive inspections by limiting the number of bodies allowed to undertake them. In addition, inspections and pre-inspections for international trade, with the exception of alcohol, are no longer required. Further simplification of licensing procedures is awaiting approval of the above draft law.

39. With regard to **public sector reform**, at the beginning of this year, the government implemented several measures to streamline a few activities at the local level. In a number of departments, activities were either abolished or transferred to oblast state administrations (for example, agriculture, education and culture, health). To improve financial control, the State Inspection and Financial Control was merged with the Chamber of Accounts (public auditor). The transfer of these functions to the oblast level resulted in some cost savings and a small reduction in personnel. In addition, reforms (in particular, staff reductions) to the Ministry of Internal Affairs and of Foreign Affairs have been approved. Further measures aimed at other ministries are being contemplated along side a more comprehensive reform of the entire sector, which should be put in place in 2001.

III. POTENTIAL OUTPUT GROWTH OVER THE LONG TERM¹¹

40. Estimates of a country's potential output—the maximum output which can be sustained without a rise in inflation—and the position of output relative to this potential are important considerations in assessing and formulating economic policy requirements. While central to the analysis of industrial countries, this concept is also relevant for transition (and developing) economies to better understand the supply-side determinants of growth as the transformation process proceeds. Estimates of the gap between potential and actual output (the output gap) give an indication of the degree of slack in the economy at a point in time, and thus provide a means of both looking through cyclical developments to identify emerging structural imbalances in the macroeconomy and to identify underlying inflation

¹⁰ In January 2000, electricity prices were raised by 20 percent, followed by a 35 percent increase in April. The April increase was subsequently rolled back by 15 percent in May.

¹¹ Written by Robert York.

pressures. They also have an important use in analyzing fiscal developments and the underlying structural budget balance.

41. In this section, an attempt is made to estimate medium-term potential output and the output gap for the Kyrgyz Republic. It is important to note that, since these variables are unobservable and there is no satisfactory method for deriving them, they are surrounded by a wide margin of uncertainty, and should be interpreted cautiously.¹² In the next section, the methodological issues in constructing potential output are discussed, followed by estimates for the Kyrgyz Republic. A final section looks at the impediments to faster growth, suggested by the analysis.

A. Methodological and Data Issues

42. A number of methods can be used to gauge an economy's trend or supply-determined potential output. These methods include, the use of time trends, univariate de-trending approaches such as the Hodrick-Prescott (HP) filter, a production-function based approach, and indirect methods which rely on cross-sectional, rather than time series data.¹³ The use of time trends (or split time trends) involves regressing the log of real GDP against time, or split time trends, to allow for differences in trends between cycles. While the advantage of this method is its simplicity the main disadvantage is that it imposes a deterministic trend, which is not evident in some of the data. The HP filter improves on the time trend by fitting a trend through the observations of real GDP, irrespective of any structural breaks in the data, but allows the regression coefficients to vary over time. This is accomplished by searching for a trend output that both minimizes a weighted average of the gap between output and trend output, at any point in time, and the rate of change in trend output at that point in time.¹⁴ The

¹² The IMF relies heavily on estimates of potential output to guide policy, employing a number of techniques and simplifying assumptions to do so. The methodologies used are described in detail in DeMasi (1997).

¹³ For a summary of the literature see, for example, Barrell and Sefton (1995), DeMasi (1997), and Girono et. al. (1995).

¹⁴ More precisely, the trend Y^* for $t=1,2,...,T$ is estimated in the HP filter to minimize the function

$$\sum (\ln Y(t) - \ln Y(t)^*)^2 + \lambda \sum [(\ln Y(t-1)^* - \ln Y(t)) - (\ln Y(t) - \ln Y^*(t-1))]^2$$

where λ is the weighting factor that controls how smooth the resulting trend line is. A low value for this parameter produces a trend that follows actual output more closely, whereas a high value reduces the sensitivity of the trend to short-term fluctuations in actual output.

benefit of this approach is that it only requires data for real GDP, while a drawback is the arbitrary nature of the weighting (or smoothing) factor.¹⁵

43. Unlike the mechanical nature of the previous methods, the production function based approach attempts to explicitly account for potential output by linking it directly to factor inputs, and the linkage between them and total factor productivity. Several steps are involved. A production function is estimated (typically Cobb-Douglas) for given shares of capital and labor, the residuals of which are then smoothed and used as a measure of trend total factor productivity. A measure of potential employment is then defined, consistent with the natural rate of unemployment or the employment level that does not result in additional inflation (i.e., the nonaccelerating wage rate of unemployment, or NAWRU). (Below, for simplicity and lack of knowledge about the nature of the labor market, trend employment using the HP filter is used in deriving this estimate.) The smoothed measures of total factor productivity and employment are then combined with the actual capital stock in the estimated production function to determine potential output. The main advantage of this approach is that it allows for an explicit accounting for growth in terms of what is known or assumed about factor inputs and productivity, and allows for judgement to be brought to bear on some of the key elements. A major drawback remains the significant data requirements used in its construction. Much of the data are difficult to measure, and when available are often unreliable (capital stock). Furthermore, some of the data are unobservable, and so estimating them poses similar problems as for the two other approaches.

44. A fourth approach might be better suited for transition economies because of the lack of long time series and reliable data. Under this methodology, potential growth is estimated based on the long-term growth experiences of a large number of other countries. The determinants of growth (such as human capital, population growth, investment, and public consumption) in a cross section of countries is then used to make predictions for a specific country.¹⁶ Previous estimates of Barro (1991) and Levine and Renelt (1992) are used in this regard. The major criticism of this method is that it assumes homogeneity of the growth process across (rich, middle-income and poor) countries. Since the growth process is often characterized by catch-up and technological progress, this may be a significant limitation of this approach.

¹⁵ There is no satisfactory statistical criteria to choose λ , so most researchers have simply used 1600, which was the original value chosen by Hodrick and Prescott in their study of annual data (Hodrick and Prescott, 1980).

¹⁶ This is the approach used by Fischer, Sahay and Vegh (1987). This approach could also be extended to include the empirical literature on growth experience in transition economies which highlight a number of growth factors, such as macroeconomic stability, openness to trade, privatization and other structural reforms (see for example, Havrylyshyn et.al., 1999).

45. Given the strengths, weaknesses and uncertainties attached to each of the various methodologies, a range of estimates of Kyrgyz potential output are generated below. Three of the four approaches are employed, leaving aside the (split) time trend since no assumptions were made about the nature of structural breaks in the time series.

46. The data used come from De Broeck and Koen (2000), who provide a time series for the Kyrgyz Republic dating back to 1970. Included in this data set is the capital stock, employment and estimate of both official and adjusted real output. A listing of the data is given in Table 1. Although these data stretch back into the period prior to independence, they are thought to provide insights into current developments, mainly because the structure of the Kyrgyz economy has not changed significantly, despite the recent institutional and other policy changes. However, this may be a highly erroneous assumption, given that a market economy has replaced central planning.

B. Estimates of Potential Output

47. Three different estimates of potential output over the period 1971–99, are presented in Tables 2 and 3. Several scenarios of the transition process are offered in the estimates, in order to provide a range for potential growth.

48. Not surprisingly, long-run growth predicted from the cross-country approach provides the highest estimate of potential output growth, and the production function approach (under certain assumptions) the lowest.¹⁷ Using the parameters from large cross-country regressions and applying them to Kyrgyz data suggest that long-run growth in this country might be between 3–6 percent per annum. Meanwhile, the production function estimate ranges from around 2 percent to 3 percent, the upper bound being similar in value to the HP filter technique.¹⁸

¹⁷ *A priori*, it was expected that the cross-country evidence would provide an upper bound estimate for the Kyrgyz Republic, for a number of reasons: the cross country results explain the growth experience of a large number of countries (fast and slow growing), instead of an individual country; this type of analysis assumes linear relationships between growth and the explanatory factors, and thus may provide misleading indications of the growth process, such as the interaction between growth and other forces (macro stability, corruption, regulatory barriers and the like); and it assumes homogeneity across countries, in other words, that the process of growth is determined equally for both rich and poor countries, and thus might be biased upwards. In contrast, it was thought that the production function would provide a lower bound estimate, since there is no presumption that during the pre-independence period production was motivated by allocative efficiency. The estimate from the HP filter provides a middle ground.

¹⁸ The differences in the production function estimates are based on the various assumptions employed: in one scenario, the transition process is thought to reflect past long-term behavior (averages); in another, it is supposed that the transition results in a decline, then a rebound in productivity and labor supply (optimistic); while a third scenario assumes a decline and then only a slow pickup in these two factors (pessimistic).

49. While estimates of the rate of potential output growth vary significantly under different approaches, all scenarios indicate that the magnitude of the corresponding output gap is large, perhaps, as much as one-third of potential GDP. The potential growth estimate provides an indication of how fast the gap is likely to close over time. Given current projections for the growth of real GDP over the next several years, the upper bound estimate of potential output growth suggests that the output gap is unlikely to be closed quickly, and could perhaps widen over time.

C. Impediments to Higher Potential Growth over the Long Term

50. As noted earlier, estimates of potential output are subject to wide margins of uncertainty. Nonetheless, they can provide important insights into the nature of the growth process and policy requirements in the period ahead. All things considered, a reasonable estimate of potential output growth for the Kyrgyz economy is likely to be around 3 percent per annum. This relatively low estimate (relative to prior expectations about the positive impact of economic reform), and the magnitude of the output gap suggest a sense of urgency in eliminating the impediments to higher growth. From the point of view of the **supply side** (i.e., aggregate production function) a number of policy issues present themselves.

51. First, closing the output gap is a high priority, since idle capacity could translate into lower future potential growth as both physical and human capital deteriorate. Aggregate demand could be stimulated through further progress in macroeconomic stabilization and in particular adoption of a fiscal policy stance that allows for the accumulation of savings over time; and enhancing export markets and performance, since the Kyrgyz economy lacks the size to lift growth substantially through domestic demand alone. Indeed, the Ministry of Finance estimates that one third of all enterprises are idle. Furthermore, agricultural output (as noted above) is in many areas only a fraction of its pre-independence level.

52. Second, while the existence of highly educated labor inputs is often cited as a positive factor in evaluating future prospects, there is growing evidence of a rapidly deteriorating labor market. On the one hand, there is overall inadequate demand for labor, although demand does exist for technically-qualified personnel. On the other hand, labor supply remains unresponsive to market conditions, with a continuing stream of secondary- and university-trained graduates who are not technically competent. Thus, while the labor force expands in quantitative terms, it may not be rising in effective (or qualitative) terms. In this regard, important reforms to the education sector need to be made.

Table 1. Kyrgyz Republic: Estimates of Labor, Capital Stock , and Output, 1970-97

	Labor (thousands of workers)	Capital stock 1/ (constant rubles)	Output 1/ (constant rubles)
1970	1,094.3	6,633.3	2,679.0
1971	1,143.8	7,200.9	2,751.3
1972	1,166.9	7,838.9	2,901.6
1973	1,193.6	8,410.0	2,997.2
1974	1,234.4	9,106.3	3,107.6
1975	1,259.6	9,878.3	3,197.2
1976	1,302.4	10,438.5	3,261.4
1977	1,351.6	10,950.9	3,312.4
1978	1,365.6	11,527.9	3,414.4
1979	1,403.1	12,033.9	3,474.3
1980	1,424.6	12,562.8	3,588.0
1981	1,465.5	13,241.2	3,703.8
1982	1,506.4	13,857.9	3,655.2
1983	1,543.9	14,537.4	3,971.1
1984	1,580.0	15,071.6	4,110.3
1985	1,614.3	15,746.1	4,032.2
1986	1,651.1	16,252.8	4,117.9
1987	1,702.7	16,805.8	4,250.6
1988	1,716.1	17,014.9	4,706.9
1989	1,738.9	17,582.8	4,745.4
1990	1,747.9	17,814.8	5,067.3
1991	1,731.2	18,324.4	4,740.0
1992	1,835.9	18,588.3	3,870.6
1993	1,680.6	18,657.1	3,271.5
1994	1,645.4	18,442.0	2,470.1
1995	1,641.7	18,515.8	2,242.0
1996	1,651.5	18,706.6	2,327.7
1997	1,689.3	18,861.8	2,609.4

Source: De Broeck and Koen (2000).

1/ Capital stock and output are measured in "comparable" prices which only partially reflect inflation. These variables are reported at constant, 1973, prices.

Table 2. Kyrgyz Republic: Estimates of Potential Output Using Cross-Country Approach, 1991-99

	Barro growth equation 1/						Levine and Renault growth equation 2/					
	Log PPP per capita income	Primary school enrollment	Secondary school enrollment	Government / GDP	Predicted per capita growth	Predicted aggregate growth	PPP per capita income (in U.S. dollars)	Population growth rate	Secondary school enrollment	Investment/ GDP	Predicted per capita growth	Predicted aggregate growth
1991	8.08	111.00	99.00	0.22	5.74	7.14	...	...	...	...	...	...
1992	7.95	111.00	95.00	0.21	5.62	6.02	2832	0.40	95.00	0.15	3.59	3.99
1993	7.80	112.00	90.00	0.20	5.49	4.59	2449	-0.90	90.00	0.13	3.84	2.94
1994	7.60	113.00	88.00	0.19	5.46	5.96	2003	0.50	88.00	0.12	3.24	3.74
1995	7.56	104.00	79.00	0.20	4.96	6.36	1917	1.40	79.00	0.20	4.04	5.44
1996	7.63	105.18	79.00	0.19	4.99	6.39	2064	1.40	79.00	0.23	4.50	5.90
1997	7.73	106.79	79.72	0.17	5.05	6.35	2271	1.30	79.72	0.12	2.58	3.88
1998	7.75	106.79	79.72	0.18	5.05	6.45	2333	1.40	79.72	0.13	2.60	4.00
1999	7.79	106.79	79.72	0.15	5.05	6.35	2419	1.30	79.72	0.09	1.95	3.25
Average	7.80	108.76	86.92	0.19	5.27	6.18	2494	0.91	86.92	0.15	3.29	4.14

Source: International Monetary Fund, International Financial Statistics, and World Bank.

1/ Barro equation: per capita growth = $0.0302 - 0.0075 \times \text{initial income} + 0.025 \times \text{primary school enrollment rate} + 0.0305 \times \text{secondary school enrollment rate} - 0.119 \times \text{share of government expenditure in GDP}$.

2/ Levine and Renault equation: per capita growth = $-0.83 - 0.35 \times \text{initial income} - 0.38 \times \text{population growth} + 3.17 \times \text{secondary school enrollment rate} + 17.5 \times \text{investment share of GDP}$.

Table 3. Kyrgyz Republic: Estimates of Potential Output Using Hodrick-Prescott Filter and Production Function Approaches, 1970-99

	Actual output	Hodrick-Prescott Filter 1/			Trend averages 2/			Production function estimate Optimistic scenario 3/			Pessimistic scenario 4/		
		Potential output	Output gap (in percent)	Growth of output	Potential output	Output gap (in percent)	Growth of output	Potential output	Output gap (in percent)	Growth of output	Potential output	Output gap (in percent)	Growth of output
1970	2,679.0	2,714.6	-1.3		2,686.2	-0.3		2,686.2	-0.3		2,686.2	-0.3	
1971	2,751.3	2,798.0	-1.7	3.1	2,779.6	-1.0	3.5	2,779.6	-1.0	3.5	2,779.6	-1.0	3.5
1972	2,901.6	2,883.5	0.6	3.1	2,878.7	0.8	3.6	2,878.7	0.8	3.6	2,878.7	0.8	3.6
1973	2,997.2	2,970.4	0.9	3.0	2,967.8	1.0	3.1	2,967.8	1.0	3.1	2,967.8	1.0	3.1
1974	3,107.6	3,057.9	1.6	2.9	3,067.5	1.3	3.4	3,067.5	1.3	3.4	3,067.5	1.3	3.4
1975	3,197.2	3,145.3	1.7	2.9	3,171.8	0.8	3.4	3,171.8	0.8	3.4	3,171.8	0.8	3.4
1976	3,261.4	3,232.7	0.9	2.8	3,254.1	0.2	2.6	3,254.1	0.2	2.6	3,254.1	0.2	2.6
1977	3,312.4	3,320.4	-0.2	2.7	3,332.1	-0.6	2.4	3,332.1	-0.6	2.4	3,332.1	-0.6	2.4
1978	3,414.4	3,409.2	0.2	2.7	3,417.4	-0.1	2.6	3,417.4	-0.1	2.6	3,417.4	-0.1	2.6
1979	3,474.3	3,500.0	-0.7	2.7	3,498.8	-0.7	2.4	3,498.8	-0.7	2.4	3,498.8	-0.7	2.4
1980	3,588.0	3,593.6	-0.2	2.7	3,585.8	0.1	2.5	3,585.8	0.1	2.5	3,585.8	0.1	2.5
1981	3,703.8	3,691.0	0.3	2.7	3,689.7	0.4	2.9	3,689.7	0.4	2.9	3,689.7	0.4	2.9
1982	3,655.2	3,792.8	-3.6	2.8	3,793.4	-3.6	2.8	3,793.4	-3.6	2.8	3,793.4	-3.6	2.8
1983	3,971.1	3,900.1	1.8	2.8	3,908.5	1.6	3.0	3,908.5	1.6	3.0	3,908.5	1.6	3.0
1984	4,110.3	4,012.5	2.4	2.9	4,018.0	2.3	2.8	4,018.0	2.3	2.8	4,018.0	2.3	2.8
1985	4,032.2	4,130.3	-2.4	2.9	4,145.3	-2.7	3.2	4,145.3	-2.7	3.2	4,145.3	-2.7	3.2
1986	4,117.9	4,255.0	-3.2	3.0	4,267.4	-3.5	2.9	4,267.4	-3.5	2.9	4,267.4	-3.5	2.9
1987	4,250.6	4,386.8	-3.1	3.1	4,401.5	-3.4	3.1	4,401.5	-3.4	3.1	4,401.5	-3.4	3.1
1988	4,706.9	4,525.0	4.0	3.1	4,515.4	4.2	2.6	4,515.4	4.2	2.6	4,515.4	4.2	2.6
1989	4,745.4	4,666.9	1.7	3.1	4,661.6	1.8	3.2	4,661.6	1.8	3.2	4,661.6	1.8	3.2
1990	5,067.3	4,811.3	5.3	3.1	4,783.1	5.9	2.6	4,783.1	5.9	2.6	4,783.1	5.9	2.6
1991	4,740.0	4,958.0	-4.4	3.0	4,928.2	-3.8	3.0	4,928.2	-3.8	3.0	4,928.2	-3.8	3.0
1992	3,870.6	5,102.3	-24.1	2.9	5,026.4	-23.0	2.0	4,585.6	-15.6	-7.0	4,399.8	-12.0	-10.7
1993	3,314.8	5,250.8	-36.9	2.9	5,110.4	-35.1	1.7	4,432.7	-25.2	-3.3	4,110.6	-19.4	-6.6
1994	2,719.4	5,403.6	-49.7	2.9	5,172.0	-47.4	1.2	4,431.1	-38.6	0.0	3,927.9	-30.8	-4.4
1995	2,566.1	5,560.8	-53.9	2.9	5,258.8	-51.2	1.7	4,513.1	-43.1	1.9	3,862.4	-33.6	-1.7
1996	2,755.0	5,722.7	-51.9	2.9	5,357.2	-48.6	1.9	4,852.1	-43.2	7.5	3,891.8	-29.2	0.8
1997	3,041.6	5,889.2	-48.4	2.9	5,454.2	-44.2	1.8	5,194.5	-41.4	7.1	3,966.9	-23.3	1.9
1998	3,106.2	6,060.6	-48.7	2.9	5,539.1	-43.9	1.6	5,358.1	-42.0	3.1	4,048.0	-23.3	2.0
1999	3,220.1	6,236.9	-48.4	2.9	5,625.4	-42.8	1.6	5,528.4	-41.8	3.2	4,153.2	-22.5	2.6

Source: IMF Staff Estimates and De Broeck and Koen (2000).

1/ Over the period 1992-1999, the growth of potential output is estimated as the average rate of growth of output over the period 1970-1991.

2/ Trend average estimate is based on smoothed (using the Hodrick-Prescott filter) labor and total factor productivity growth.

3/ The optimistic scenario assumes both a rapid adjustment of labor resources and an improvement in total factor productivity growth over the period of transition.

4/ The pessimistic scenario assumes both a slow adjustment of labor resources and a slow recovery of total factor productivity growth over the transition period.

53. Third, the current capital stock is in a state of disrepair, and is likely having a disproportionately large adverse impact on potential output growth. For example, capital expenditures in the energy sector have not kept pace with energy sector demands; the transportation infrastructure is in disrepair (although multilateral institutions are providing support for major improvements); the telecommunications network is in need of substantial investment; the national airline has almost no capacity to service international routes; and agricultural growth is hindered by poor irrigation infrastructure and lack of modern machinery and other capital inputs. Upgrading the infrastructure will require some public capital expenditures, however, a number of these investments could be made by the private sector, if these activities were privatized.

54. Finally, it is difficult to be definitive about why economic performance in the Kyrgyz Republic has not improved more, given the extent of economic reform that has occurred since the early 1990s. A number of factors could have had some influence: the long time it takes for economic behavior to change and adjust to new policies and incentives; the coincidence of macroeconomic stabilization and structural reform leading to the displacement of both capital and labor; the still limited extent of structural adjustment that has taken place in a number of important areas (such as the labor market, export markets, and the public sector); the ongoing nature of reform; the geographic location of the country and its small size, which limits the scope for efficiency gains; and the difficulties in establishing smooth trade relations within the region. Moreover, the lack of successful implementation of a number of policies (large-scale privatization, public sector and regulatory reform, and stabilization) may also have played a role.

55. Achieving a major improvement in total factor productivity growth is predicated on both boosting capacity utilization and improving the efficiency of resource use. This might be accomplished through a concerted policy effort to set conditions right for achieving a sustained improvement in economic performance. On the macro front, fundamental changes will be required to put the budget on a sustainable basis, reduce the debt burden and to eliminate activities which place a drain on the public purse (such as ongoing problems in the energy sector and loss-making state-owned enterprises).

56. On the structural front, there appear to be four major policy challenges to confront: (i) creating incentives for investments in both physical and human capital, not through tax exemptions or transfers, but through establishing a level playing field for all economic agents which is free from excessive government intervention; (ii) ensuring that the business environment is supported by adequate infrastructure (transportation, energy, communications), which can only be provided by the public sector; (iii) further reducing the involvement of government in economic activity; and (iv) avoiding backtracking on policy reform, to remove any uncertainty as to what might come next.

IV. INTERNATIONAL COMPETITIVENESS¹⁹

57. This section examines developments in international competitiveness for the Kyrgyz Republic over the period 1995–99. The focus of attention is on the evolution of the real effective exchange rate (REER), certain key bilateral exchange rates, and relative unit labor costs (RULC's).²⁰

A. Estimates of the Real Effective Exchange Rate

58. The real effective exchange rate is defined as the weighted average of the real exchange rates of the country's trading partners. As shown in Table 4 and Figure 1, the evolution of the REER can be divided into four periods.²¹ First, a large real effective depreciation occurred over 1995 and 1996, with the CPI- and PPI-based series broadly following the same pattern.²² Second, a modest appreciation occurred in 1997 and continued into mid-1998, with the CPI- and PPI-based series again following similar paths. Third, in the wake of the Russian crisis, the CPI-based REER depreciated by nearly 18 percent from September to November 1998 while the PPI-based series, after a sharp appreciation between July and September 1998, also depreciated, but by a lesser degree than the CPI measure. Finally, over the course of 1999, the two series diverged. The CPI-based REER showed a slight appreciation in early 1999 followed by a depreciation before stabilizing at its end-1998

¹⁹ Written by Julie Kozack.

²⁰ International competitiveness might also be assessed by analyzing market share gains (or losses). However, in the case of the Kyrgyz Republic, this type of analysis may not prove too revealing, given the current nature of trade relations. For example, exports to Germany consist mainly of gold, and trade with its regional partners is hampered by trade barriers. In this case, examining export market growth may not give a true picture of competitiveness.

²¹ The data used to calculate the trade weights were taken from the Kyrgyz Republic's direction of trade statistics provided by the NBKR. Monthly nominal exchange rate and consumer price data were taken from INS for the period January 1995 to March 2000. Average monthly nominal exchange rates in dollar terms were used. Monthly producer or wholesale price data were taken from IFS.²¹ Producer price data for Germany and Italy from December 1999 to March 2000 were taken from OECD data. Producer price data for Tajikistan were not available beginning May 1999. The PPI-based series ends in December 1999 because the PPI was not available for most countries after that date.

²² As can be seen in Table 4 and Figure 2, the INS series and the CPI-based series calculated in this exercise follow an almost identical trend. The main difference appears to be in the appreciation that occurs over 1997. This is likely due to the difference in weights applied to Germany, with the INS weighting scheme allocating a significantly smaller weight to Germany.

level. In contrast, the PPI-based REER appreciated sharply immediately following the Russian crisis and only began to depreciate in March 1999. Overall, the som depreciated by some 19 percent, in real effective (CPI-based) terms, between September 1998 and March 2000.

59. To try to disentangle the effects that fluctuations in the currencies of the Kyrgyz Republic's trading partners have had, key real bilateral exchange rates are presented in Tables 5 and 6 and Figures 3 and 4. Figure 3 presents the CPI-based real exchange rate index vis-à-vis Russia, Kazakhstan, Uzbekistan, Germany, and the US. The evolution of these bilateral rates sheds some light on the pattern of the REER. The real effective depreciation over the period 1995–97 was caused mainly by a depreciation of the som vis-à-vis the currencies of the Kyrgyz Republic's major BRO trading partners. The real effective appreciation over the course of 1997 and the first half of 1998 was clearly due to a steep real appreciation vis-à-vis the German mark. Finally, the sharp real effective depreciation that occurred in the wake of the Russian crisis is mirrored by a real depreciation against four of the five currencies, the exception being the Russian ruble. The som appreciated in real terms against the Russian ruble after the Russian crisis and, as of March 2000, had not yet returned to its pre-crisis level.

60. Figure 4 presents the PPI-based real exchange rate index vis-à-vis Russia, Kazakhstan, Uzbekistan, Germany, and the US. It is striking that the PPI-based real exchange rate indices show far less fluctuation in the early years than the CPI-based ones. Although there was a steady real depreciation of the som against the Russian ruble and the Uzbek sum prior to the Russian crisis, it depreciated much less in real terms against the Kazakh tenge and faced less fluctuation against the German mark and the US dollar. In addition, the real depreciation vis-à-vis the Kazakh tenge, the Uzbek sum, the US dollar, and the German mark following the Russian crisis was far less severe when the real exchange rate is measured using the PPI rather than the CPI. Thus, although the som did appreciate in real terms against the Russian ruble, the Kyrgyz Republic experienced an improvement in competitiveness against the currencies of its other major trading partners.

61. Although such an improvement in competitiveness is usually followed by an improvement in exports (with a lag), the Kyrgyz Republic has not yet experienced it. Export growth has slowed in recent years as a result of low demand in the BRO countries, the loss of competitiveness vis-à-vis Russia, and trade tensions with Kazakhstan and Uzbekistan. Imports have also slumped, as expected, due to the real effective depreciation.

B. Relative Unit Labor Costs

62. Estimates of relative unit labor costs are shown in Table 7.²³ The Kyrgyz Republic experienced an improvement in its competitive position against nearly all of its major BRO

²³ Unit labor costs for the industrialized countries were taken from the WEO database. The data used to calculate unit labor costs for the BRO countries in the sample were taken from the WEO database and the FSU database maintained by EU2. Unit labor cost data for China and the Islamic Republic of Iran were not available.

trading partners, the exception being Tajikistan. This view is also supported by absolute measures of competitiveness such as dollar wages (see Box 3). Regarding its non-BRO trading partners, the story is more mixed. For example, the Kyrgyz Republic faced an almost continuous decline in its relative unit labor cost with respect to Canada, Italy, Turkey, the UK, and the US. However, with respect to Belgium, France, Germany, and Switzerland, the RULC rose until 1998 and then fell in 1999, likely due to the effects of the Russian crisis.

63. The effects of the Russian crisis also manifested themselves in the RULC with respect to Russia. Between 1995 and 1997 the RULC with respect to Russia fell by nearly 50 percent, only to rise in 1998 and again in 1999. This U-shaped pattern of the relative unit labor cost is consistent with the pattern of the real exchange rate vis-à-vis the ruble and suggests that, since the Russian crisis, the Kyrgyz Republic has suffered a loss in competitiveness with respect to Russia. Conversely, relative unit labor costs with respect to Kazakhstan and Uzbekistan have fallen consistently since 1995, indicating that the Kyrgyz Republic has seen an improvement in its competitive position with those countries.

C. Conclusions

64. Estimates for both a CPI- and PPI-based real effective exchange rate show that, since 1995, the Kyrgyz Republic has experienced an overall improvement in its competitive position. Over this period, the CPI- and PPI-based real effective exchange rates depreciated by about 41 percent and 31 percent, respectively. Much of this depreciation occurred after the Russian crisis, with both measures depreciating by nearly 20 percent since September 1998. In addition, since 1995, the som has depreciated in real terms against the Russian ruble, the Kazakh tenge, the Uzbek sum, the German mark, and the U.S. dollar. Two caveats remain, however. First, since August 1998, the som has appreciated in real terms against the Russian ruble and, although depreciating more recently, has not yet reached its pre-crisis level. Second, the PPI-based real exchange rate vis-à-vis the German mark shows no improvement in competitiveness since 1995; although fluctuations did occur over the period. Estimates of relative unit labor costs show a pattern broadly similar to that of the REER. Thus, the Kyrgyz Republic appears to be in a favorable position to increase its export performance in the period ahead. Nonetheless, the loss of competitiveness vis-à-vis Russia cannot be understated given that it is one of the country's most important trading partners.

Box 3. Dollar Wages in the BRO

Another measure of competitiveness is the average monthly dollar wage, which is easily compared across countries and provides a common measure of labor input costs. Here, dollar wages across the BRO countries are compared to better understand the Kyrgyz Republic's competitive position with respect to its traditional trading partners.

The Kyrgyz Republic currently has one of the lowest dollar wages among the BRO countries, although this was not always the case. For example, in 1995 the dollar wage in the Kyrgyz Republic was \$36 and only the Baltics, Russia, Kazakhstan and Belarus had higher dollar wages. By 1997, dollar wages in most other BRO countries had risen, while in the Kyrgyz Republic dollar wages remained at their 1995 level. This implied an increase in the Kyrgyz Republic's competitive position as relative labor costs fell. By 1999, the Kyrgyz Republic had the second lowest dollar wage among the BRO countries (only Tajikistan had a lower dollar wage). The fall in dollar wages was mostly due to the sharp depreciation of the som since 1998 and, as is apparent from the Table below, dollar wages fell in several other BRO countries including Kazakhstan and Russia.

Overall, it appears that the trend in dollar wages is consistent with those of the real effective exchange rate and unit labor costs. The Kyrgyz Republic has experienced an improvement in its competitive position with respect to most of the BRO countries. However, it has seen a relative deterioration in its competitiveness vis-à-vis Russia, as Russian dollar wages fell by nearly 50 percent from 1998 to 1999. Thus, the extent to which the Kyrgyz Republic can benefit from a general improvement in competitiveness (measured in dollar wages) is unclear.

BRO Countries: Average Monthly Wage 1995–2000
(In U.S. dollars, period average)

	1995	1996	1997	1998	1999
Armenia	15.8	22.0	23.8	30.8	34.2
Azerbaijan	13.3	19.9	30.6	43.2	46.0
Belarus	65.1	90.6	86.2	100.1	70.2
Estonia	207.2	247.9	257.4	291.3	300.9
Georgia	7.6	18.0	27.4	31.1	33.0
Kazakhstan	78.3	100.9	114.3	124.4	92.3
Kyrgyz Republic	36.1	38.8	36.2	37.4	24.7
Lithuania	129.0	172.2	213.0	255.6	268.7
Latvia	169.8	179.1	206.6	226.1	241.0
Moldova	31.9	40.8	47.2	46.9	28.5
Russia	106.4	157.2	166.8	114.2	64.2
Tajikistan	5.9	9.0	8.9	11.3	10.0
Turkmenistan	4.8	14.6	34.0	51.3	61.8
Ukraine	50.6	75.3	83.9	64.4	40.7
Uzbekistan	36.0	53.8	55.7	57.3	66.3

Source: National authorities.

Table 4. Kyrgyz Republic: Real Effective Exchange Rates, 1995-2000
(Jan. 1995=100)

	CPI-based	PPI-based	INS
1995 Jan.	100.00	100.00	100.00
Feb.	101.92	98.49	101.08
Mar.	100.00	95.25	99.52
Apr.	97.00	89.29	95.98
May	95.54	85.82	94.20
Jun.	95.44	85.37	94.82
Jul.	94.89	83.76	93.81
Aug.	92.86	83.52	90.33
Sep.	93.23	82.97	91.20
Oct.	90.32	82.19	88.74
Nov.	76.94	84.87	76.09
Dec.	79.22	85.54	77.69
1996 Jan.	79.43	86.77	77.58
Feb.	80.28	85.35	78.18
Mar.	82.15	84.50	79.74
Apr.	83.18	81.31	80.00
May	83.24	80.25	79.72
Jun.	82.67	81.43	78.88
Jul.	80.62	81.84	77.13
Aug.	80.94	81.02	77.69
Sep.	77.75	82.54	74.52
Oct.	72.14	76.10	68.87
Nov.	65.85	72.38	62.88
Dec.	66.67	75.82	63.28
1997 Jan.	68.39	75.01	64.46
Feb.	70.89	80.22	65.97
Mar.	68.75	78.78	63.55
Apr.	69.12	76.97	63.62
May	70.29	75.92	64.77
Jun.	73.51	78.81	67.44
Jul.	73.28	78.83	66.87
Aug.	73.48	82.39	67.04
Sep.	72.17	81.12	66.39
Oct.	73.28	82.05	67.55
Nov.	74.17	80.39	68.27
Dec.	74.99	82.22	67.96
1998 Jan.	76.01	82.00	68.14
Feb.	76.42	82.70	68.54
Mar.	76.14	82.32	68.25
Apr.	75.02	81.25	67.35
May	72.11	76.40	65.15
Jun.	75.57	78.59	68.40
Jul.	73.28	75.01	66.60
Aug.	72.23	74.32	66.23
Sep.	73.11	83.88	68.30
Oct.	67.67	80.28	63.75
Nov.	59.97	73.72	56.38
Dec.	61.06	81.40	57.37
1999 Jan.	61.61	83.91	57.62
Feb.	61.64	82.61	57.41
Mar.	61.19	86.30	56.89
Apr.	57.27	82.42	53.90
May	56.38	72.19	54.15
Jun.	60.16	75.06	58.06
Jul.	63.80	75.82	61.85
Aug.	59.67	72.25	58.11
Sep.	59.21	71.28	57.67
Oct.	60.63	71.88	59.30
Nov.	59.35	69.03	57.52
Dec.	59.47	69.33	57.28
2000 Jan.	58.60	...	56.10
Feb.	59.15	...	56.33
Mar.	59.36	...	56.63

Sources: Kyrgyz authorities; and Fund staff estimates.

Figure 1. Kyrgyz Republic: Real Effective Exchange Rate, January 1995 - March 2000 1/
(January 1995 = 100)

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

1/ An increase indicates an appreciation.

Figure 2. Kyrgyz Republic: Real Effective Exchange Rate, 1995-2000
(Jan. 1995=100)

Sources: Kyrgyz authorities; and Fund staff estimates.

Table 5. Kyrgyz Republic: CPI-Based Key Bilateral Real Exchange Rates, 1995-2000
(Jan. 1995=100)

	CPI-based real exchange rate index				
	Russia	Uzbekistan	Kazakhstan	Germany	United States
1995 Jan.	100.00	100.00	100.00	100.00	100.00
Feb.	106.47	89.83	104.90	103.52	105.52
Mar.	110.07	84.78	103.84	97.80	106.34
Apr.	107.73	75.78	103.50	96.20	106.41
May	101.80	73.99	104.02	99.18	107.46
Jun.	91.05	84.04	104.94	101.07	109.92
Jul.	84.75	90.02	101.62	102.47	112.30
Aug.	79.61	93.29	92.09	106.95	112.67
Sep.	77.55	93.01	95.28	108.56	113.07
Oct.	73.61	90.49	92.63	103.65	111.40
Nov.	60.42	76.21	77.34	88.15	94.55
Dec.	60.21	75.41	75.92	90.50	95.44
1996 Jan.	60.58	74.76	76.30	94.72	98.07
Feb.	61.77	75.34	77.79	97.88	100.95
Mar.	63.13	76.28	79.14	101.90	104.09
Apr.	64.24	72.25	79.38	106.45	106.40
May	64.29	71.60	78.53	107.70	105.66
Jun.	63.64	71.25	76.59	106.48	104.77
Jul.	62.76	71.88	73.86	102.26	101.90
Aug.	64.86	73.37	73.48	101.28	102.29
Sep.	62.85	69.83	71.02	98.05	97.47
Oct.	58.13	65.82	64.84	91.87	90.01
Nov.	52.59	63.76	58.77	83.07	81.96
Dec.	53.19	61.13	61.10	86.32	83.01
1997 Jan.	53.70	61.16	62.83	90.57	84.61
Feb.	55.11	61.53	63.97	97.55	87.05
Mar.	53.33	58.06	61.30	96.14	84.58
Apr.	53.77	57.25	61.32	98.16	85.47
May	54.86	57.37	63.02	99.88	87.68
Jun.	56.75	60.62	65.27	105.69	91.30
Jul.	55.56	62.55	64.07	107.53	89.94
Aug.	54.93	66.14	63.34	108.51	88.31
Sep.	54.70	66.49	62.52	104.01	86.95
Oct.	56.13	67.92	63.24	104.26	88.83
Nov.	57.19	68.33	63.63	104.90	90.56
Dec.	57.09	67.51	62.97	107.69	90.64
1998 Jan.	57.24	67.58	62.74	111.01	91.28
Feb.	57.79	67.64	62.80	112.19	92.20
Mar.	57.73	67.33	62.29	112.70	91.95
Apr.	57.17	66.56	61.43	110.38	90.66
May	55.19	64.64	59.29	104.10	87.45
Jun.	57.28	70.86	61.93	108.63	90.18
Jul.	55.21	71.55	59.79	104.64	86.46
Aug.	56.09	72.43	59.07	100.66	83.48
Sep.	79.86	68.05	55.87	88.77	77.32
Oct.	77.75	61.76	52.55	78.65	71.15
Nov.	67.56	53.58	47.21	71.70	63.12
Dec.	73.66	51.91	48.23	71.00	62.85
1999 Jan.	75.58	50.63	48.39	72.14	63.03
Feb.	74.39	49.37	48.76	74.47	62.74
Mar.	73.03	48.11	48.90	75.08	61.45
Apr.	68.26	43.70	49.88	69.63	55.91
May	63.99	42.10	57.00	68.04	54.20
Jun.	65.85	48.16	61.26	73.52	57.12
Jul.	67.84	54.15	65.09	77.84	60.27
Aug.	64.18	50.21	61.29	71.61	56.69
Sep.	64.15	49.23	61.89	71.11	55.54
Oct.	65.71	50.30	65.08	71.68	57.08
Nov.	64.79	48.45	61.88	72.14	55.55
Dec.	64.38	48.06	61.03	74.27	55.86
2000 Jan.	66.07	45.91	58.87	72.57	54.80
Feb.	67.01	45.29	59.15	74.75	54.57
Mar.	65.85	45.92	59.28	76.47	54.52

Sources: Kyrgyz authorities; and Fund staff estimates.

Figure 3. Kyrgyz Republic: CPI-Based Real Exchange Rate Index, January 1995 - March 2000 1/
(January 1995 = 100)

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Sources: Kyrgyz authorities; and Fund staff estimates.

1/ An increase indicates an appreciation.

Table 6. Kyrgyz Republic: PPI-Based Key Bilateral Real Exchange Rates, 1995-2000
(Jan. 1995=100)

	PPI-based real exchange rate index				
	Russia	Uzbekistan	Kazakhstan	Germany	United States
1995 Jan.	100.00	100.00	100.00	100.00	100.00
Feb.	97.51	94.14	102.42	99.68	101.55
Mar.	97.41	89.58	99.65	92.68	100.64
Apr.	90.12	71.22	98.29	91.06	100.05
May	81.90	66.99	98.02	91.19	97.85
Jun.	73.44	71.22	99.59	92.64	99.73
Jul.	67.45	69.86	97.35	93.89	102.11
Aug.	63.60	74.32	86.45	100.52	105.42
Sep.	60.23	62.47	92.09	100.45	104.34
Oct.	57.54	56.54	90.33	96.56	103.83
Nov.	57.08	56.59	92.15	97.76	105.12
Dec.	56.91	56.21	92.03	99.27	104.78
1996 Jan.	57.64	54.76	92.68	104.43	107.17
Feb.	57.29	52.88	91.67	105.24	107.85
Mar.	56.81	51.95	91.47	106.38	107.96
Apr.	55.54	43.83	89.97	106.93	105.83
May	55.11	43.05	88.18	106.89	103.74
Jun.	56.02	42.85	89.36	109.33	106.66
Jul.	56.90	42.97	91.02	108.53	107.65
Aug.	57.57	44.30	90.16	107.66	108.11
Sep.	58.61	45.13	93.00	111.15	110.05
Oct.	52.95	42.79	84.66	103.33	100.92
Nov.	49.90	45.22	80.25	96.27	94.68
Dec.	51.63	46.05	85.16	102.01	96.76
1997 Jan.	42.31	46.70	84.60	106.98	97.71
Feb.	53.21	47.01	85.66	113.85	100.67
Mar.	51.71	45.66	82.35	112.55	99.59
Apr.	50.35	44.36	80.10	110.18	97.29
May	49.63	44.20	79.26	107.99	95.73
Jun.	50.15	45.24	80.32	111.31	97.24
Jul.	49.21	45.22	77.75	113.24	95.64
Aug.	49.45	48.54	78.42	116.89	95.95
Sep.	49.26	47.66	77.41	112.55	94.86
Oct.	50.55	48.03	78.30	112.96	96.64
Nov.	49.96	47.28	77.51	109.86	95.19
Dec.	50.99	48.51	77.94	114.32	97.43
1998 Jan.	50.47	47.90	77.48	115.68	97.23
Feb.	51.08	48.47	77.68	116.58	98.58
Mar.	51.02	48.58	77.21	116.39	97.88
Apr.	51.22	49.06	77.56	115.40	97.47
May	48.95	46.89	73.84	106.58	91.89
Jun.	50.32	49.66	76.36	110.17	94.29
Jul.	49.74	39.76	75.31	107.99	91.77
Aug.	53.24	40.30	74.70	104.45	89.62
Sep.	101.59	39.19	73.82	95.94	86.67
Oct.	100.61	37.10	71.53	88.05	82.22
Nov.	90.07	33.69	66.63	82.52	74.99
Dec.	109.28	35.14	71.31	85.50	78.45
1999 Jan.	114.38	35.19	73.31	87.58	79.30
Feb.	109.27	34.43	73.52	89.03	78.00
Mar.	111.66	35.93	77.44	94.51	80.14
Apr.	105.44	33.45	78.31	89.08	73.86
May	92.82	30.57	80.07	82.79	67.71
Jun.	93.08	33.53	83.14	88.68	70.56
Jul.	92.16	35.57	83.46	90.35	71.48
Aug.	87.50	33.51	78.72	86.31	69.41
Sep.	85.16	32.21	78.31	87.08	68.72
Oct.	84.98	32.38	77.62	88.88	71.62
Nov.	80.78	30.92	71.88	88.63	68.75
Dec.	80.13	31.28	69.89	91.87	69.94
2000 Jan.	80.88	...	68.53	89.84	68.50
Feb.	81.12	...	68.67	93.94	68.78
Mar.	80.30	...	69.42	97.93	69.82

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

Figure 4. Kyrgyz Republic: PPI-Based Real Exchange Rate Index, January 1995 - March 2000 1/
(January 1995 = 100)

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

1/ An increase indicates an appreciation.

Table 7. Kyrgyz Republic: Relative Unit Labor Cost, 1995-99 1/
(1995 = 100)

	1995	1996	1997	1998	1999
Belgium	100.0	105.7	105.8	111.3	75.1
Canada	100.0	99.0	86.3	94.8	64.4
France	100.0	104.5	106.2	113.1	77.8
Germany	100.0	108.0	113.7	123.2	84.1
Italy	100.0	91.2	85.1	92.4	63.2
Korea	100.0	99.3	101.3	157.0	100.8
Switzerland	100.0	104.8	104.9	107.4	71.8
Turkey	100.0	98.9	89.1	86.0	53.3
United Kingdom	100.0	97.9	77.8	76.1	50.8
United States	100.0	104.4	91.3	94.5	62.7
Belarus	100.0	75.2	76.0	73.7	70.8
Kazakhstan	100.0	79.0	60.8	56.0	49.7
Russia	100.0	67.0	55.5	80.2	96.1
Tajikistan	100.0	143.6	198.7	240.7	173.3
Turkmenistan	100.0	31.3	10.1	7.4	4.7
Ukraine	100.0	69.8	52.5	69.9	70.6
Uzbekistan	100.0	67.9	56.9	60.6	35.5

Sources: National authorities; and Fund staff estimates.

1/ Relative unit labor cost is the ratio of the unit labor cost in the Kyrgyz Republic to that of its trading partner, expressed in dollars. An increase in this index implies a loss of competitiveness.

V. TRADE POLICY²⁴

65. After the dissolution of the Soviet Union, the Kyrgyz Republic engaged in rapid trade liberalization and is now one of the most open economies among the Baltics, Russia, and other countries of the former Soviet Union. In December 1998 it became the first BRO country to join the World Trade Organization (WTO). The purpose of this section is two-fold: to detail the process through which the Kyrgyz Republic has chosen to pursue closer integration with the global trading system, and to assess its international trading patterns.

A. Trade Liberalization in the Kyrgyz Republic

Tariff and non-tariff barriers

66. The Kyrgyz Republic is a small open economy, with exports accounting for about 40 percent of GDP, with one of the most liberal trade regimes among the BRO (Table 8). In 1994, the Kyrgyz Republic adopted a uniform 10 percent tariff on all imported goods which remained in place until 1998.²⁵ In 1999, a tariff structure with 12 bands and a maximum tariff of 50 percent was adopted based on its WTO negotiations. The average tariff rate under this structure was 9.18 percent. For 2000, the tariff structure was again simplified to 4 bands with a maximum rate of 20 percent and an average rate of 5.21 percent.

67. Nontariff barriers for imports consist of fees for services rendered, quantitative restrictions, and import licensing. The Kyrgyz Republic administers an ad valorem customs processing fee of 0.15 percent on all imported and exported goods. Quantitative import restrictions are applied to military arms and goods, explosives, nuclear materials and technology for military use, virulent poisons, and narcotics. Currently, 19 categories of goods, ranging from nuclear materials to tobacco and alcohol, are subject to import licensing. Since July 1998, an import license fee of som 1,000 (about \$20 at the present exchange rate) has been applied.

68. The Kyrgyz Republic maintains no quantitative export restrictions other than those specified in an agreement with the European Communities regarding textiles. Export licensing exists for several products including military equipment and precious metals. Export subsidies are not provided, although some exemptions are made for import substitution and export production in the Free Economic Zones. These exemptions are to be eliminated by December 31, 2002 according to the terms of the Kyrgyz Republic's accession to the WTO.

²⁴ Written by Julie Kozack.

²⁵ There were a few exceptions for goods for which an explicit exemption had been granted by the Customs Tariff Law.

Table 8. Kyrgyz Republic: Trade Restrictiveness in BRO Countries, 1999

	Average tariff	Overall rating 1/
Armenia	3.7	1.0
Azerbaijan	12.0	5.0
Belarus	12.6	8.0
Estonia	0.0	1.0
Georgia	10.0	2.0
Kazakhstan	7.8	4.0
Kyrgyz Republic	9.2	1.0
Latvia	5.3	1.0
Lithuania	4.5	1.0
Moldova	8.9	1.0
Russia	12.6	5.0
Tajikistan	8.0	1.0
Turkmenistan	0.5	7.0
Ukraine	14.7	5.0
Uzbekistan	29.0	10.0

Source: International Monetary Fund, Trade Policy Information Database.

1/ The overall rating consists of a 10-point scale which weighs a country's simple average tariff and the extend of non-tariff barriers. Countries with ratings of 1 to 4 are considered to have broadly open trade regimes. Rating of 5 or 6 indicate the existence of moderate trade restrictions. Countries with ratings of 7 to 10 are considered to have restrictive trade regimes.

Trade agreements

Regional arrangements

69. The Kyrgyz Republic is a member of the Commonwealth of Independent States (CIS) which consists of all of the BRO countries except the Baltics. In an attempt to restore intra-CIS trade, a free trade area (FTA) was established in 1992. Although import duties are, in principle, not imposed on trade within the FTA, export and foreign exchange controls have hampered an expansion of commerce among some of the CIS countries.²⁶ The coverage of individual goods under the FTA varies and there have been extensive exemptions on a bilateral basis. In addition, weaknesses in the payment system have led to the accumulation of arrears and the reliance on barter transactions, thus further limiting the benefits of freer regional trade. Not surprisingly, the FTA has been generally unsuccessful at reorienting CIS trade inward.²⁷

70. In 1996, the Kyrgyz Republic entered into a customs union with Russia, Kazakhstan, and Belarus, which Tajikistan later joined in 1998. Initially, the members of the customs union negotiated a common external tariff based on Russian tariff rates. However, Russia, Kazakhstan, and Belarus quickly introduced unilateral modifications to the tariff structures, while the Kyrgyz Republic continued to apply a 10 percent uniform tariff rate. Thus, in practice the customs union functions more as a free trade area than a customs union, in that free trade (theoretically) exists between the member countries but no common external tariff is applied. Currently, the Kyrgyz Republic plans to adopt the common external tariff in 2003 (see below).

71. Given the failure of the CIS to boost intra-regional trade and the difficulties with the customs union, questions might arise as to the desirability of further pursuing regional integration; especially given the Kyrgyz Republic's liberal trade policy stance in comparison with its CIS partners. Indeed, in a paper by Michalopoulos and Tarr (1997), the authors find that FTA's and customs unions among the CIS member countries are unlikely to enhance growth for two reasons. First, they find that significant trade diversion (rather than trade creation) occurs under these trading arrangement, thus nullifying the benefits of freer trade. Second, they suggest that many of the gains from trade that result in improvements in technology will be missed. This is because preferential trade agreements within the CIS will increase reliance on outdated and inefficient technologies left over from the Soviet era.

²⁶ Uzbekistan and Turkmenistan, for example, have restrictive foreign exchange regimes.

²⁷ See Michalopoulos and Tarr (1997).

Multilateral arrangements

72. The Kyrgyz Republic applied for membership in the WTO in February 1996. In December 1998, it became the first BRO country to join the WTO. (Latvia and Estonia followed in 1999).

B. Accession to the WTO

The process

73. In order to join the WTO, the Kyrgyz Republic was required, like all other applicants, to complete three “phases” of accession: (1) completion of a Memorandum on Foreign Trade Regime which described trade policies and institutions; (2) fact finding by the WTO members; and (3) bilateral negotiations with all WTO members.

74. Each WTO member is entitled to undertake bilateral negotiations for increased market access and reductions in trade restrictions with the applicant. In this sense, the negotiations are unidirectional – only the members make demands during the negotiations. Once the negotiations are concluded, the country is invited to join the WTO.

Concessions

75. Given that the Kyrgyz Republic had a relatively open economy with few trade restrictions and a low uniform tariff, it appears that it did not have to make many concessions to gain membership in the WTO. The primary concession that they agreed to, and which has been difficult to implement involves collection of the VAT. Most CIS countries have adopted a mixed system of VAT collection which is “origin” based for CIS countries and “destination” based for non-CIS countries. The “origin” principle involves payment of the VAT by domestic producers regardless of whether the good is exported or sold domestically. The “destination” principle involves payment of the VAT when the good arrives at its destination, which means that imported goods require a VAT payment and exported goods are tax free. As a requirement for WTO membership, the Kyrgyz Republic agreed to amend its tax code to apply the destination principle to all exports and imports, including those of the CIS, by January 1, 1999. Thus far, no such change to the tax code has been implemented since this move will need to be closely coordinated with other CIS countries. In terms of goods and services concessions, the Kyrgyz seem to have made relatively few.²⁸ Concessions

²⁸ For goods the following concessions (relative to the offer made by the Kyrgyz Republic) were made: a reduction of the tariff on meat of bovine animals from 30 percent to 10 percent; a reduction of the tariff on beer from \$0.60 to \$0.25 per litre; a reduction in the tariff on spirits and liquors from 60 percent to 10 percent; a reduction in the tariff on carpets and some textiles from 30 percent to 12 percent; a reduction in the tariff on non-vehicular trailers from 50 percent to 10 percent; a reduction in the tariff on military weapons from 50 percent to 15 percent; and a reduction of the tariff on paintings and drawings from 50 percent to 10 percent.

on services appear to be limited to the elimination of requirements permitting only Kyrgyz citizens or firms to apply for certain licenses.

Market Access

76. By joining the WTO, the Kyrgyz Republic is automatically entitled to unconditional Most Favored Nation (MFN) status by all other WTO members. However, reductions in trade barriers are only effective if there is significant trade between the countries. Thus, it is clear that for the Kyrgyz Republic, not only their own policies but those of their major trading partners will affect market access and the terms of trade. Unfortunately, four of its six major trading partners are not members of the WTO (Table 9).

Table 9. Kyrgyz Republic: Trade by Major Trading Partner 1/

	1995	1996	1997	1998	1999
In millions of U.S. dollars					
Germany	20.8	34.7	56.4	245.2	195.5
Russia	219.1	309.1	289.6	287.7	180.1
Kazakhstan	179.3	252.1	156.7	160.8	117.6
Uzbekistan	158.9	247.2	230.1	160.8	96.5
United States of America	23.1	53.3	57.5	48.5	65.4
China	74.7	44.2	64.1	60.1	62.2
Total trade	931.3	1343.1	1313.1	1355.1	1053.6
In percent of total					
Germany	2.23	2.58	4.30	18.09	18.56
Russia	23.53	23.01	22.06	21.23	17.09
Kazakhstan	19.26	18.77	11.93	11.87	11.17
Uzbekistan	17.06	18.41	17.53	11.86	9.16
United States of America	2.48	3.97	4.38	3.58	6.21
China	8.02	3.29	4.88	4.43	5.90
Total – major trading partners	72.58	70.04	65.08	71.07	68.09

Source: Kyrgyz authorities

1/ Trade is defined as imports plus exports.

77. The pattern of trade that has emerged since 1995 indicates that the Kyrgyz Republic has shifted some trade away from its traditional trading partners and toward WTO members. For example, in 1995 trade with Germany only amounted to 2.2 percent of total trade while by 1999 it had increased to 18.6 percent (although mainly due to gold exports). Similarly, trade with Uzbekistan has diminished from 17.1 percent in 1995 to 9.2 percent in 1999 and trade with the US has nearly tripled from 1995 to 1999. Although trade with Kazakhstan and Russia has declined, these countries still account for the (combined) largest share of the Kyrgyz Republic's trade.

Table 10. Kyrgyz Republic: Exports by Major Trading Partner

	1995	1996	1997	1998	1999
In millions of U.S. dollars					
Germany	2.1	2.9	18.1	192.2	148.2
Russia	104.8	134.6	98.8	83.7	70.7
Kazakhstan	66.8	112.5	87.1	85.5	45.0
Uzbekistan	70.0	115.7	101.5	38.5	46.6
United States of America	4.0	17.6	17.9	7.6	11.2
China	68.5	36.4	31.6	15.7	25.3
Total exports	408.9	505.4	603.8	513.6	453.8
In percent of total					
Germany	0.51	0.57	2.99	37.41	32.65
Russia	25.62	26.63	16.37	16.29	15.58
Kazakhstan	16.34	22.26	14.42	16.65	9.91
Uzbekistan	17.11	22.91	16.81	7.50	10.26
United States of America	0.98	3.48	2.97	1.49	2.46
China	16.74	7.21	5.24	3.05	5.58
Total – major trading partners	77.30	83.07	58.80	82.39	76.44

Source: Kyrgyz authorities

78. From Table 10, it is apparent that although the Kyrgyz Republic's traditional BRO trading partners still make up a large share of total exports, this trend is declining. In 1995, Russia, Kazakhstan, and Uzbekistan made up nearly 60 percent of exports. By 1997, that share had fallen to 48 percent, and by 1999 it was only 36 percent. In 1999, non-FSU major trading partners accounted for nearly 41 percent of exports. It should be noted, however, that this has taken place over a period in which total exports have fluctuated significantly. Total exports grew by nearly 50 percent from 1995 to 1997 only to contract, by nearly the same amount, from 1997 to 1999. This reduction in exports over the period 1997–99 is due to the

effects of both the Russian crisis and the ongoing trade tensions with Kazakhstan and Uzbekistan (see below).

C. Benefits of WTO Membership

Dispute settlement

79. One of the benefits of WTO membership is accessibility to a forum for impartial and binding dispute settlement. The WTO mechanism for dispute settlement is potentially important for a small country like the Kyrgyz Republic because it lacks the political and economic clout to influence, on its own, trade issues that may affect it. However, since most of its most important trading partners lie outside the WTO, this mechanism holds only limited value at the moment.

Development of a market-based economy

80. In the negotiations for WTO membership and in the report of the Working Party, it is evident that the member countries sought assurance that the Kyrgyz Republic was moving in the direction of a market economy. This includes assurances about the development of domestic institutions and a reduction of the role of the government in the economy. Since WTO membership requires that domestic policies be consistent with international practice, it may provide better legal standards as well as a push toward development of a market-based economy in the Kyrgyz Republic.

Accession of major trading partners

81. Since many of the Kyrgyz Republic's major trading partners are not members of the WTO, but have applied for membership, the Kyrgyz Republic is in a position to negotiate some concessions from them.²⁹ This could help them level the playing field somewhat, especially with Russia, Kazakhstan, and Uzbekistan, its most important BRO trading partners. Nonetheless, as the smaller partner in these future accession negotiations, it is uncertain how far the Kyrgyz Republic can go in extracting concessions.

D. Ongoing Issues

82. Perhaps the most important issue that the Kyrgyz Republic will face in the near future is that of regional economic and trade relations. Given its small size, it is important to maintain stable and friendly relations with its neighbors. Regional relations have been difficult over the past two years and, despite some signs of improvement, are expected to remain so. At the same time, the recovery of Russia and the increase in oil prices may serve

²⁹ In fact, the Kyrgyz Republic is currently a member of the working party for both Georgia and Moldova.

to ease tensions in the region, allowing for the reversal of the protectionism that followed the Russian crisis.

83. In 1999, Uzbekistan unilaterally suspended traffic along a number of regular trade routes. In addition, all exports from the Kyrgyz Republic are subject to excise taxes of 35–100 percent. Currently, the only item that is imported from Uzbekistan is natural gas. The Kyrgyz Republic relies on Uzbekistan to supply natural gas for heating and each year a swap is arranged in which it exports electricity to Uzbekistan in exchange for natural gas.³⁰

84. In 1998, Kazakhstan imposed a tariff of 200 percent on foodstuffs from the Kyrgyz Republic, depriving it of a major export market. In addition, Kazakhstan imposed an import quota on cement which caused a large contraction in Kyrgyz cement exports in 1999. These trade barriers have since been removed, but they have been replaced with licensing fees, transit fees, and mandatory deposits for certain goods. Currently, Kazakhstan imposes a transit fee of \$35 per vehicle, a 25 percent “deposit” on the export value of cement, a 30 percent “deposit” on the value excisable exports, and “ecological fees” administered at the oblast level. These deposits are the equivalent of licensing fees since the deposit is required to obtain a license. In addition, trade with Russia is affected by the situation in Kazakhstan since most of the Kyrgyz Republic’s exports to Russia travel through Kazakhstan.

E. Conclusion

85. The Kyrgyz Republic has pursued trade liberalization at a relatively fast pace and it became the first BRO country to join the WTO in 1998. Since then, the country has faced many challenges, mainly due to a deterioration of regional trade relations and the lag inherent in establishing new trade linkages. Going forward, it should continue to liberalize its trade regime and support it through strengthening the legal system and market-based economic framework.

VI. THE CHALLENGE OF POVERTY ALLEVIATION³¹

86. In September 1999, the Development and Interim Committees endorsed a framework to strengthen the link between debt relief and poverty reduction and to enhance the poverty focus of all World Bank and IMF concessional lending. The new approach is based on poverty reduction strategies by countries and embodied in Poverty Reduction Strategy Papers (PRSPs). PRSPs will provide the context for concessional assistance to low-income countries provided by IDA and by the Fund and form a key element of the Poverty Reduction and

³⁰ The supply of gas from Uzbekistan is often interrupted due to Uzbek claims of nonpayment. The Kyrgyz Republic is trying to negotiate a lower gas price as the current price of about \$55/bcm is well above world market prices.

³¹ Written by Robert York.

Growth Facility (PRGF, replacing the ESAF). PRSPs are expected to be country-owned and designed in a participatory fashion (taking into account the views of Parliament and other democratic bodies, the donor community, civil society, and specifically the poor themselves), comprehensive in approach, and based on a medium- and long-term perspective, including appropriate monitoring indicators against which progress can be measured. To date, the Kyrgyz authorities have made significant progress toward developing a PRSP. In the context of the World Bank's Comprehensive Development Framework (CDF), a secretariat responsible for the PRSP has been established and procedures for consultations and the contribution of inputs are being put into place, with participation from stakeholders.

87. This section of the paper provides a brief snapshot of poverty developments in the Kyrgyz Republic, looks at the major instruments for poverty alleviation, and discusses the key future policy challenges surrounding it.

A. Poverty in the Kyrgyz Republic

88. The Kyrgyz Republic, with GDP per capita of \$255 in 1999 is among the poorest countries of the CIS (only Tajikistan, is poorer). At the average 1999 exchange rate of som 39 per dollar this amounts to som 9,945 per capita, compared with a food-poverty and general-poverty line³² of som 3,849 and som 7,340 per capita per annum, respectively. Between 1996 and 1999, poverty increased significantly. Table 11 shows that 64 percent of the population (head-count) had fallen below the poverty line in 1999, compared with 52 percent in 1996 and that the poverty gap had also widened. To a certain extent this reflects developments in the Kyrgyz Republic in the wake of the Russian crisis. Hence over the past several years, both the number of poor and the depth of poverty has risen even though there has been modest economic growth.

³² The *food poverty line* is set at the level of consumption, below which, even if all resources were devoted to food, minimum calorific intake (2,100 Kcal) could not be met. The *general poverty line* represents a minimum level of consumption, taking into account both food and nonfood necessities.

Table 11. Kyrgyz Republic: Dynamics of Main Poverty Indices, 1996–99

	1996		1997		1998		1999	
	Food Poverty Line	Poverty Line	Food Poverty Line	Poverty Line	Food Poverty Line	Poverty Line	Food Poverty Line	Poverty Line
Head Count 1/	20.0	52.0	14.8	51.0	23.0	63.6	23.3	64.1
Poverty Gap 2/	6.0	19.0	4.0	18.0	6.0	24.7	...	...

Source: World Bank and National Statistical Committee.

1/ Percent of total population.

2/ Defined as the proportion of income needed to reach the poverty line.

89. As to the geographic distribution of poverty, recent data show that while the majority of the poor lives in rural areas, the increase in poverty is proportionally higher in urban areas (Tables 12 and 13). In 1996, the rural poor made up nearly 59 percent of the total population while in 1998 they accounted for 71 percent; over the same period the urban poor increased from 37 percent to nearly 51 percent. Naryn and Osh remain the poorest regions (85–90 percent poverty rates), while the area around Bishkek (the capital city) experiences the lowest level of poverty (below 30 percent).

Table 12. Kyrgyz Republic: Urban and Rural Poverty, 1996–99
(head count, percent of population)

	Poor			Extreme poor		
	Urban	Rural	Total	Urban	Rural	Total
1999	49.0	69.7	64.1	17.1	25.6	23.3
1998	50.7	71.3	63.6	18.3	25.8	23.0
1997	28.5	64.5	51.0	4.9	20.7	14.8
1996	37.1	58.9	51.9	10.3	23.3	19.1

Source: World Bank and National Statistical Committee.

Table 13. Kyrgyz Republic: Poverty by Region, 1996–1998
(head-count)

	1996	1997	1998
Bishkek			
Urban	26.4	6.0	28.9
Total	26.4	6.0	28.9
Issyk-kul			
Urban	58.0	38.9	53.6
Rural	65.7	79.9	74.4
Total	64.1	64.6	68.8
Julal-Abad			
Urban	45.6	58.3	44.8
Rural	53.6	76.8	81.7
Total	52.2	73.2	72.3
Naryn			
Urban	92.7	75.9	88.5
Rural	73.2	94.7	89.3
Total	76.8	90.5	89.1
Osh			
Urban	34.8	56.7	86.8
Rural	64.3	68.7	78.6
Total	58.9	65.8	81.2
Talas			
Urban	88.4	57.8	48.5
Rural	56.7	68.2	86.5
Total	63.4	67.0	82.1
Chui			
Urban	36.2	20.7	39.9
Rural	42.7	28.2	37.1
Total	41.2	26.6	37.6
Kyrgyz Republic			
Urban	36.0	28.5	50.7
Rural	58.2	64.5	71.3
Total	51.9	51.0	63.6

Source: Kyrgyz Republic Poverty Monitoring Survey, 1998

90. In considering demographic factors in relation to poverty developments, the recent data illustrate clearly that poor households tend to be larger, consisting of more children than non-poor households; nearly three children per family compared with only one (Table 14). Further, poor families also have one more adult in the family, relative to the non-poor, resulting in a higher rate of dependency on the household income.

Table 14. Kyrgyz Republic: Household Composition and Dependency, 1998

	Children (<15)	Adults (15-59)	Elderly (60+)	Household Size	Dependency Ratio ³³
Extreme poor	2.93	3.70	0.48	7.11	3.23
All poor	2.49	3.26	0.47	6.22	2.96
Non poor	1.05	2.27	0.43	3.75	2.70
Total	1.74	2.74	0.45	4.92	2.85

Source: Kyrgyz Republic Poverty Monitoring Survey, 1998.

91. The number of highly educated people among the general population is relatively large, a legacy of the former-Soviet system and its emphasis on education. However, the highly educated (secondary school and above) are also over-represented among the poor, accounting for around three-quarters of those below the poverty line (Table 15); at the same time their poverty gap is the highest in relation to both the food- and general-poverty line. Among these poor are teachers, doctors, scientists, those in cultural sectors and other professions within the public sector. Low wages that have not been raised in several years provide much of the explanation for these developments. A further explanation lies in the lack of demand for such specialists, in the period of transition.

³³ The dependency ratio is calculated by dividing a group's population by the number of employed persons.

Table 15. Kyrgyz Republic: Education and Poverty Status, 1998

Poverty Status		Education Level			
		No Education	Incomplete Secondary	Secondary	Higher Education
Extreme poor	Percent within group	9.1	20.4	46.7	23.8
	Poverty gap 1/	3.9	5.5	5.8	1.9
All Poor	Percent within group	10.4	16.6	42.4	30.6
	Poverty gap 1/	20.9	21.7	25.2	11.2
Non-poor	Percent within group	7.2	14.0	21.9	56.9
Total population	Percent within group	8.8	15.3	32.2	43.7

Source: World Bank and National Statistical Committee.

1/ Defined as the proportion of income needed to reach the poverty line.

92. A major influence on poverty developments relates both to the labor market (Table 16) and the lack of an adequate social safety net. On the one hand, without significant employment and real wage growth, real incomes will not rise fast enough to lift substantial numbers of the population out of poverty. Indeed, as noted above, the share of the labor force employed in agriculture is the largest in the economy and is growing, however, it is also the sector where the poor are most likely to be employed. The ratio of average wages to the guaranteed minimum level of consumption is reported to have declined from 125 percent in 1996 to 95 percent more recently. The guaranteed minimum level of consumption is determined by the government each year, taking into account the fiscal and economic situation, to ensure a basic income for needy families/individuals.³⁴ On the other hand, social assistance is meager, much below subsistence levels and thus cannot provide a means through which to raise incomes appreciably. Over the past several years there is an increasing gap between the size of social allowances and the minimum consumer budget, with the ratio of the allowance to the MCB falling from 9 percent in 1996 to 5 percent three years later (for those receiving pension benefits, this ratio declined from 58 percent to 41 percent over the same period).³⁵

³⁴ In fact, the guaranteed minimum level of consumption is a notional concept, which would apply if there were fiscal resources enough to boost social assistance.

³⁵ Social allowances are not indexed for inflation, and are often not paid in a timely manner.

Table 16. Kyrgyz Republic: Poverty and the Labor Market

	Unemployment Rate			Labor Force Participation ³⁶		
	Urban	Rural	Total	Urban	Rural	Total
All Poor						
1993	...	...	...	...	...	...
1996	...	...	...	...	...	...
1997	17.2	2.1	5.2	62.1	66.0	65.1
1998	9.6	4.6	5.9	51.5	65.1	60.5
Non Poor						
1993	...	...	...	...	...	...
1996	...	...	...	...	...	...
1997	11.1	6.4	9.2	66.6	63.2	65.2
1998	13.0	7.5	10.4	56.9	61.1	59.5
Total						
1993	9.0	4.6	6.2	70.5	70.2	70.3
1996	11.9	9.1	10.2	59.6	46.6	51.1
1997	12.6	3.7	7.3	65.5	64.9	65.2
1998	11.4	5.5	7.8	54.4	63.7	60.0

Source: Kyrgyz Republic Poverty Monitoring Survey, 1998

93. The magnitude of poverty in the Kyrgyz Republic is also reflected in the deteriorating quality of, and access to, social services, particularly health and education. In both these sectors, even modest user fees, while improving cost recovery, can prevent access due to the extreme nature of poverty. In rural areas, for example, the poor can ill afford the cost of text books and other learning materials required for their children's education, and as result, children from poor families often do not attend school. In the health sector, the relatively high rates of child malnutrition may reflect an absence of proper health care as much as a poor diet.

B. Current Measures to Alleviate Poverty

94. During the period of transition, there has been an increasing need to develop policy instruments to alleviate poverty in the Kyrgyz Republic. At present these instruments are limited, being severely constrained by the fiscal situation and high external debt service requirements.

95. There are several forms of social assistance, but the unified monthly benefit is one of the most important for poverty alleviation. (The other social assistance programs are

³⁶ The working age is 16–59 for males and 16–54 for females.

described in Box 5 in Section IX). The unified monthly benefit is given to poor families, citizens with children, students, unemployed pensioners, and disabled citizens provided that the average income per capita in their families does not exceed the guaranteed level of consumption. The benefit is determined as the difference between the minimum guaranteed level of consumption (since 1998, set at som 100/month) and the average aggregate income of the family/citizen, with a maximum benefit of som 100 per month. When determining the aggregate family income, account is taken of all types of income, including that derived from subsistence farming. In 1999, 487,500 people received an average benefit of som 47.3. The maximum benefit level has not been adjusted since 1998. The benefit can be received for 12 months, but is denied if family income changes during the year. Pensions are also an important component to combat poverty, and the pension system is described in detail below.

96. In early 1998, a National Program on Overcoming Poverty “Araket” for the period 1998–2005 was adopted, as the main instrument for addressing the Kyrgyz Republic’s poverty issues. The Araket Program consists of several elements:

The Annual Program Plan of Action, which sets out the responsibilities of relevant central government agencies and ministries, as well as those of local government;

Presidential, government and other decrees, resolutions and orders, which outline the institutional framework, implementation mechanisms and responsibilities (in terms of program management);

Speeches and promotional activities, to define the spirit and intent of the program;

Other government programs, which complement Araket; and

Draft project proposals, for donor financing to implement key activities within Araket.

97. Within this framework, the overall poverty alleviation strategy is to revolve around several policy issues: boosting economic growth and thus employment prospects; raising the minimum wage of public sector employees who form one group of the poor; investment in human capital; targeted social protection; and addressing inequality through tax reform. The Araket Program is to be co-ordinated by the National Poverty Alleviation Commission (chaired by the Prime Minister) with financial resources managed by the Poverty Alleviation Fund.

98. Up to this point, the Araket program remains more a vision statement than an operational instrument and it has a number of shortcomings:³⁷ the National Poverty Commission has met infrequently, thus providing almost no direction for policy to take; there

³⁷ A detailed critique of the Araket program is provided in, UNDP, “Kyrgyz Republic Assessment of the National Anti-Poverty Programme”, August 1999.

has been no indication of the financial resources to be allocated to the Poverty Alleviation Fund; there are no clear mechanisms for implementation, nor guidance concerning which ministries or institutions are responsible for undertaking it; and the program goals may be overly ambitious (for example, halving the current level of poverty by 2005).

C. Future Policy Challenges

99. Poverty reduction will remain one of the most important challenges facing the government in coming years. While cyclical factors might contribute importantly to recent developments, deep-seated structural and social policy reform are needed to address the underlying problems, especially the following issues.

100. First, the government needs to elaborate both its short- and long-term goals in reducing poverty. Such an elaboration will help focus debate among civil society, nongovernment organizations and the government, about how best to tackle the problem. In doing so, it will also be important for the government to develop a clear set of principles which will guide the poverty reduction strategy. For example, it should explain its views on the responsibilities of the state versus those of the individual; universal access to goods, services and social assistance versus those that are to be targeted; the extent of user-pay principles; and the extent of decentralization in both developing and implementing such a policy.

101. Second, the growth of actual (and potential) output must be lifted substantially, and this growth needs to be more broadly based so that all segments of society have the potential to share in the benefits. With the long-term growth potential of the Kyrgyz economy estimated at around 3 percent, it would likely take a long period of time to reduce poverty significantly. The difficulty in boosting growth, however, should not be underestimated. As detailed in Section III above, a number of macroeconomic and structural policy measures will be required to promote investment and to create new jobs.

102. Third, given the limited financial resources of the government, consideration ought to be given to reforming social assistance, since the current system is apparently not achieving its objectives. Thus, a key challenge remains to provide an adequate benefit to the poorest segments of society (without reducing incentives to work), which is also easy to administer. At the same time, the efficiency of social services will need to be improved so as to contain the deterioration in living standards.

103. Fourth, with regard to resources to finance both existing and new policy initiatives, it will be imperative that the government develop a transparent and sustainable fiscal program. Such a program will have to be forward-looking, with a view towards increasing the ratio of revenues to GDP, while at the same time eliminating numerous special privileges and unwarranted expenditures and subsidies.

104. Finally, the poverty reduction strategy must take account of the specific factors influencing income developments in the Kyrgyz Republic, in particular, those related to

pockets or regions of extreme poverty and mountainous areas. While recognizing the need to support regional development, the government must be acutely aware of the potential problems created by such a policy. Experience across a range of countries shows that although regional development can have desirable effects, it can also lead to the immobility of labor and hinder structural adjustment necessary to improve economic performance. In other words, for policy efforts to be effective, the government will likely have to face the decline and ultimately the closure of economic activities in some areas.

VII. PENSION REFORM³⁸

105. The Kyrgyz Republic inherited an unviable state pension system from the former Soviet Union. The cut in budgetary transfers from Moscow, combined with difficulties in raising revenues, left the government with insufficient resources with which to fund the previous and overly generous program. To address this problem, in 1997, in consultation with the World Bank, the Kyrgyz Republic undertook a major reform of the state pension system, transforming it from an earnings related pay-as-you-go scheme to a contributory one.³⁹

106. The aim of this section is to describe the recent pension reform undertaken by the Kyrgyz Republic. In the next section, the previous pension system and its shortcomings are described. In the following section, the new pension system is examined with an emphasis on the link between its features and the goals of the government and some conclusions are drawn in the final section.

A. Elements of the Previous Pension System

107. The pension system that the Kyrgyz Republic inherited from the Soviet era was a pay-as-you-go system administered by the state. The state provided generous pensions that acted as both social assistance and social insurance, including for old-age, disability, and survivors benefits. Revenues came from payroll taxes (39 percent) levied on employers (33 percent) and employees (6 percent). Additional financing came from budgetary transfers and borrowing from other funds within the Social Fund.⁴⁰ Regular shortfalls in financing led to the accumulation of pension arrears.

³⁸ Written by Julie Kozack.

³⁹ See Holzmann (1997) for details of pension reforms designed by the World Bank.

⁴⁰ In 1996 the government created the Social Fund, which was responsible for administering the Pension Fund, the Social Insurance Fund, the Employment Fund, and the Medical Insurance Fund. Although the Social Fund was created as a benefit and collection agency, each year a transfer was made from the budget to the Social Fund. The payroll tax was distributed between the individual funds with the Social Fund as follows: 32 percent to the
(continued...)

108. During the transition, the old system of pension administration became unsustainable for a number of reasons, including the collapse in employment and the acceleration of inflation. The high payroll tax rate led to distortions in the labor market which reduced the demand for labor and encouraged under-reporting of income. The generous benefits scheme thus created a substantial burden on the pension system. As noted in an earlier report (SM/97/274), the support ratio (ratio of contributors to pensioners) for the Kyrgyz Republic in 1996 was less than half that of the working age to retired population (Table 17).⁴¹

Table 17. Kyrgyz Republic: Support Ratios, 1996

Working age population to retirement population	5.5
Employed persons to retirement population	3.7
Contributors to retirement population	2.0
Contributors to pensioners	1.6

Source: Kyrgyz Social Fund and IMF

109. Prior to the pension reform, pension eligibility requirements had remained unchanged since 1928 when retirement benefits were introduced. Old-age pensions were awarded at a rate equal to 55 percent of average income during any 5 consecutive years of employment with each additional year of service adding one percentage point to the minimum rate. By end-1997, the average benefit equaled 60 percent of the average wage, while the retirement age was 55 years for women (minimum of 20 years of work) and 60 years for men (minimum 25 years of work). Working pensioners received full pensions. The pension fund also administered pensions for the aged and disabled who were not eligible for work-related pensions. Special pensions for outstanding service to the country and early retirement pensions were also common.

110. In addition, a significant number of labor compensation payments were excluded from the payroll and wage tax collections. These included material assistance payments, severance payments, fringe benefits, one-time labor awards, and compensation for unused

Pension Fund, 2 percent to the Employment Fund, 2 percent to the Medical Insurance Fund, and 3 percent to the Social Insurance Fund. Due to increases in collections, the payroll tax was reduced to 38 percent in 2000 (31 percent paid by employers and 7 percent paid by employees) with a decline in the Social Insurance Fund contribution from 3 percent to 2 percent.

⁴¹ See "Options for Pension Reform in the Kyrgyz Republic" in the appendix of the 1997 Recent Economic Developments, SM/97/274.

leave. There was no single taxpayer identification number, which made it easier for enterprises to hide revenue. As a result, the effective contribution level was low.

111. Based on international comparisons it is evident that the previous pension system in the Kyrgyz Republic was distorted. The retirement age was relatively low and the replacement rate high when compared with that of other BRO countries (Table 18). One statistic of interest is the Kyrgyz Republic's relatively high aged-dependency ratio (0.71) compared with its relatively low ratio of aged population to the labor force (0.14). Given the country's demographic profile, the high aged-dependency ratio appears to be the result of the overly "generous" pension system. All of the factors mentioned above created a situation where, by 1997, pension fund expenditures were 32 percent higher than revenues. This led the Kyrgyz to undertake an extensive review of the pension system with a view to restoring its financial viability.

B. The Reform Program

Designing the pension reform

112. In reviewing the previous system, it was apparent that failure to introduce reforms would lead to continued shortfalls in the Pension Fund, thus requiring increasingly larger budgetary transfers and/or greater accumulation of arrears. Hence, the pension reform sought to establish financial sustainability by bringing under control the excessive nature of benefits granted under the previous system, strengthening the link between contributions and benefits, and reducing the Pension Fund's dependence on the budget.

113. The reform of the pension system occurred in two stages. In October 1997, the first stage began with the introduction of the "Law on State Social Insurance" (Pension Law).⁴² As noted earlier, the goal of this legislation was to reform the pay-as-you-go system and facilitate the eventual transition to a partially funded system. Under the new system, the individual's monthly pension benefit would be calculated based on total contributions and a new, actuarially fair, k-coefficient,⁴³ and a minimum pension. Contributions made into the personal accounts would continue to finance current system liabilities as the new system was slowly phased-in. However, it is important to note that under this plan, the pension system would remain unfunded (i.e., pay-as-you-go) as current inflows would be used to finance benefit payments even after the new system was fully adopted.

⁴² This law was drafted with the support of the World Bank's Social Sector Adjustment Credit (SOSAC).

⁴³ The k-coefficient is defined as the percentage of total contributions (or benefits) that a pensioner receives in a given year.

Table 18. Kyrgyz Republic: Pension Indicators for Selected BRO Countries, 1997-99

	1998 1/				1998			1999		
	Aged- dependency ratio	Aged population/ labor force	Life expectancy at birth	Labor force participation rate	Average pension (in U.S. dollars)	Average wage (in U.S. dollars)	Replacement rate	Average pension (in U.S. dollars)	Average wage (in U.S. dollars)	Replacement rate
Armenia	0.52	0.17	74.36	0.74	7.30	30.79	0.24	8.10	34.22	0.24
Azerbaijan	0.58	0.15	71.36	0.70	9.69	43.50	0.22	n.a.	44.70	n.a.
Belarus	0.49	0.25	68.41	0.77	46.44	100.12	0.32	23.00	70.24	0.33
Estonia	0.47	0.25	69.79	0.81	87.89	232.00	0.38	97.00	250.70	0.39
Georgia	0.52	0.25	72.71	0.75	9.46	31.11	0.30	7.00	33.04	0.21
Kazakhstan	0.54	0.15	64.64	0.74	45.00	124.36	0.36	33.50	85.59	0.39
Kyrgyz Republic	0.70	0.14	67.05	0.73	17.74	37.44	0.47	9.82	24.70	0.40
Latvia	0.48	0.26	69.66	0.80	86.80	165.30	0.53	97.20	171.20	0.57
Lithuania	0.49	0.25	71.57	0.78	71.96	255.60	0.28	77.50	268.70	0.29
Moldova	0.51	0.19	66.51	0.76	15.44	46.87	0.32	9.00	28.42	0.32
Russia	0.46	0.23	66.96	0.77	44.11	108.29	0.38	18.23	64.26	0.28
Tajikistan	0.82	0.11	68.51	0.69	3.42	9.90	0.22	3.00	9.90	0.30
Turkmenistan	0.72	0.10	65.92	0.74	23.97	51.29	0.47	n.a.	61.85	n.a.
Ukraine	0.48	0.28	67.30	0.74	23.20	64.43	0.36	n.a.	40.66	n.a.
Uzbekistan	0.75	0.11	69.36	0.74	n.a.	56.90	n.a.	n.a.	66.20	n.a.

Sources: World Bank, World Development Report; and Fund staff estimates.

1/ World Development Report.

114. In the second stage, in June 1998, the government enacted a significant amendment to the Pension Law, again in line with World Bank recommendations. The amendment stipulated an increase in the retirement age by three years by June 2004 and a 50 percent reduction in pensions paid to working pensioners. These measures were needed to ensure fiscal sustainability of the pension fund. However, the reform effort faced a parliamentary challenge when, in the same month, the parliament passed a law slowing the increase in the retirement age to four months per year and limiting the reduction of pensions paid to working pensioners to only those earning above the average wage. This challenge was put before the Constitutional Court in September 1998 which effectively brought the reform to a stand-still. Indeed, in December 1998, the Constitutional Court ruled that the key provisions of the October 1997 Pension Law and the amendments made in June were unconstitutional.

115. However, in January 1999, the constitutional court issued an amendment to the December ruling that allowed the government and the parliament to pass legislation increasing the retirement age. By February 1999, the authorities were able to pass a new law which stipulated an increase in the retirement age by three years by 2007; however, they did not approve a reduction of pensions to working pensioners. The government also agreed to transfer disability certification from the Ministry of Labor to the Social Fund. This was deemed necessary because of the growing numbers of persons qualifying for disability pensions.

Details of the reform program

116. The reform of the pension system focused on the following elements: (i) increase in the retirement age; (ii) adoption of a new, actuarially fair, *k*-coefficient; (iii) preservation of the base pension; and (iv) creation of individual (NDC) accounts.

117. The increase in the **retirement age** is critical to the successful implementation of the pension reform program. According to the pension legislation, the retirement age will be increased by 4 months per year from 1998 to 2007 so that it will increase by three years for men and women to 58 and 63, respectively. The adoption of an actuarially fair **k-coefficient** was seen as vital to the fiscal sustainability of the pension fund. The *k*-coefficient is used to determine the monthly pension benefit after retirement and is derived from the estimated (average) life expectancy of men and women at the age of retirement (Table 19). The **base pension** has been kept in place to provide a minimum level of assistance to the poorest pensioners. However, the base pension has historically been too high (30 percent of the average wage). Thus, according to the legislation, the base pension will be de-linked from the minimum wage and kept constant at som 200 until it reaches 12 percent of the average wage, at which time it will be indexed to remain at that share. The reform program is based on the premise that benefits and contributions must be linked to improve both the equity and efficiency of the system. The creation of **individual accounts** not only provides such a link but also creates an incentive to work longer to increase contributions and, therefore, benefits. This occurs for two reasons. First, the longer one works, the greater the contributions into his individual account. Second, the longer one works, the greater the *k*-coefficient associated with pension benefits which thus implies greater (annual) pension benefits.

Table 19. Kyrgyz Republic: K Coefficient for Pension Calculations

Age of retirement	Life expectancy (a) 1/	K coefficient (percent) (=1/a)	Age of retirement	Life expectancy (a) 1/	K coefficient (percent) (=1/a)
45	27.7	3.6	58	18.1	5.5
46	26.9	3.7	59	17.5	5.7
47	26.1	3.8	60	16.8	6.0
48	25.4	3.9	61	16.2	6.2
49	24.6	4.1	62	15.5	6.5
50	23.8	4.2	63	14.8	6.8
51	23.1	4.3	64	14.3	7.0
52	22.4	4.5	65	13.8	7.2
53	21.6	4.6	66	13.3	7.5
54	20.7	4.8	67	12.6	7.9
55	20.0	5.0	68	12.1	8.3
56	19.4	5.2	69	11.5	8.7
57	18.8	5.3	70	11.0	9.1

Source: World Bank

1/ Life expectancy at the age of retirement.

118. Some of the measures taken, such as the increase in the retirement age, directly affected the Pension Fund's financial outlook. However, other measures were aimed at improving the allocation of resources within the pension system. Specifically, this involved the creation of the Notional Defined Contribution (NDC) scheme wherein contributions were recorded in individual accounts, but actually used to finance current expenditures. The NDC scheme was designed to create a clear link between contributions and benefits and to reward individuals for higher contributions and longer years of work. Other CIS countries, such as Latvia, have pursued a similar approach.⁴⁴ When pension systems are unfunded, the contribution rate can be seen as a labor tax and thus has a distortionary effect on the labor market by reducing labor supply. Given that the pension contribution rate is 32 percent, which is high by international standards, increasing it further can not be considered a reasonable option. On the contrary, one of the long term goals of pension reform is to gradually reduce the contribution rate to allow individuals to accumulate savings in privately managed pension funds.

⁴⁴ See Fox and Palmer (1999) for a description of the Latvian pension reform. Also see de Castello Branco (1998) for a description of pension reform in the BRO countries.

The impact of reform

119. Although it is too early to make a final determination, it appears that the reformed system will be financially viable over the medium term together with a phasing out of budgetary transfers. In fact, the World Bank estimates that a reduction in the contribution rate should be possible by 2005. In August, pensions were increased by 20 percent, in line with a similar increase in public sector wages. The World Bank cautioned that there were risks inherent in the pension system that have not yet been fully addressed, such as improving revenue collection and ending its dependence on transfers from the budget, and future pension increases should be analyzed carefully. (Table 20 presents revenue and expenditure flows of the Pension Fund for 1996–2000.)

120. An immediate impact of the pension reform has been to reduce the replacement rate. The average monthly pension has also fallen. As shown in Table 19, the replacement rate has been historically high for a developing country. Thus a reduction in this rate was necessary to ensure financial viability of the pension system. Nonetheless, the fall in the average pension is alarming to the extent that pensions may be the only source of income to the elderly.

Table 20. Kyrgyz Republic: Summary of Social Fund Budget, 1994–2000
(In percent of GDP)

	1994 Actual	1995 Actual	1996 Actual	1997 Actual	1998 Actual	1999 Actual	2000 Budget
Total Revenue	5.3	7.3	6.4	6.1	6.3	5.8	5.8
Pension Fund	4.3	6.0	5.5	5.5	5.5	4.9	5.0
Social Insurance Fund	0.7	1.0	0.9	0.6	0.5	0.4	0.3
Employment Fund	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Medical Insurance Fund	0.0	0.0	0.0	0.1	0.3	0.4	0.3
In-kind payments	0.0	0.0	-0.3	-0.3	-0.3	-0.3	0.0
Total Expenditures	6.1	8.3	8.0	7.6	7.8	6.6	6.3
Pension Fund	5.1	7.4	7.3	6.9	7.1	6.0	5.5
Social Insurance Fund	0.9	0.7	0.5	0.5	0.4	0.3	0.3
Employment Fund	1.0	0.2	0.3	0.2	0.3	0.2	0.3
Medical Insurance Fund	0.0	0.0	0.0	0.0	0.1	0.2	0.3
Deficit	-0.8	-1.0	-1.7	-1.5	-1.5	-0.8	-0.5
State Budget Transfers	0.6	0.9	1.3	1.5	1.0	0.7	0.3
Arrears	0.2	0.1	0.3	0.0	0.5	0.1	0.2

Source: Kyrgyz Social Fund.

121. The possibility of creating private pension funds arose after the pension reform was put in place. Given the underdeveloped financial markets in the Kyrgyz Republic, it is unlikely that they will be able to support private pension funds that invest in securities or equities in the Kyrgyz Republic.

Broad issues

122. In assessing the success (or failure) of the pension reform in the Kyrgyz Republic, three broad issues arise. These issues are related to both practical design of a pension system and the social-economic rational for the existence of social security systems. They are: equity vs. efficiency issues; protection of the poor; and underdeveloped financial markets.

123. **Equity/efficiency** tradeoffs are one of the most profound issues facing policy makers since they create an inherent tension when designing a pension (or social welfare) system. Arising from this basic tension is the “pillar” approach to pension reform. The pillar approach combines a flat-rate component and an earnings- or contribution-related component into a comprehensive pension scheme. The flat rate component is typically a base pension and the earnings-related component is usually based on past contributions to the pension system. The base pension is provided to ensure a minimum income to pensioners while the earnings-related component is intended to ensure efficiency by linking contributions to benefits. This is precisely the system adopted by the Kyrgyz Republic with the base pension set at som 200 and the earning-related component derived from the NDC accounts and the new k-coefficient.

124. **Protection of the poor** should be a fundamental objective of any pension system. Thus, the inclusion of a base pension is justified on the grounds that it helps protect the most vulnerable groups. However, it is also clear that a pension system alone is not sufficient to protect the poor and that other social assistance may be necessary. Due to the unfavorable fiscal climate, the primary objective of the pension reform was to achieve financial sustainability. This implied a need to increase contributions or to reduce benefits in order to minimize the pension fund’s dependence on transfers from the budget. A second, and often overlooked, objective was to ensure that the most vulnerable groups received the social protection that they required. The reformed system attempts to achieve these two goals. However, the priority given to the first goal has interfered with the ability of the pension system to deliver on the second.

125. As shown in Table 21, the average monthly pensions for old-age and all categories are less than the (monthly) general poverty line.⁴⁵ In addition, the base pension, which was around 21 percent of the average wage in 1999, is below the food poverty line. As of January 1, 2000, 57 percent of old-age pensioners received pensions below som 400 per

⁴⁵ Pension categories include old-age pensions, disability pensions, survivors pensions, and pensions for exceptional service.

month, which is below the general poverty line. The current base pension of som 200 is twice the cap of the Unified Monthly Benefit which is the primary vehicle for social protection. It is not clear whether these pensioners have access to other sources of income and whether that income offers sufficient resources. The World Bank estimates that pensioners living with younger family members are generally not among the poor; however, pensioners living alone are likely among the poorest households. Currently, poverty statistics do not capture pensioners' total income and statistics on working pensioners are not collected. This makes it difficult to determine whether the elderly have adequate sources of income.

Table 21. Kyrgyz Republic: Income Indicators, 1999

	in Kyrgyz soms	percent of average wage
Average monthly pension (old-age)	410	42.3
Average monthly pension (all categories)	385	39.7
Base pension	200	20.6
Food poverty line 1/ 2/	321	33.1
General poverty line 1/ 3/	612	63.1
Average monthly wage	969	...

Source: World Bank, Kyrgyz Social Fund, and staff estimates.

1/ The monthly poverty line is calculated by dividing the 1999 annual poverty line by 12. In 1999 the food poverty line was som 3,849 per annum and the poverty line was som 7,340 per annum.

2/ The food poverty line is defined as the minimum consumption expenditure necessary to reach a daily consumption of 2100 calories plus.

3/ The poverty line is calculated by adding a "necessary non-food expenditure" component to the food poverty line.

126. Although a base pension is provided to even the poorest pensioners, it is not clear that the envisaged rate of 12 percent of the average wage is a sufficient base pension. World Bank estimates show that an employee who earns half of the average wage throughout his working life and contributes 23 percent to the Pension Fund will receive a pension equal to 75 percent of his previous income. However, given the low levels of contributions and the growth of informal sector employment, many workers may not receive adequate protection when they retire. Given this ambiguity, the pension reform may be overlooking some of the most vulnerable groups. Table 22 presents some data on average pensions for various pension categories.

Table 22. Kyrgyz Republic: Pension Categories, 1999

	Number of Pensioners (annual)	Avg. Monthly Pension (in som)	Number of New Pensioners (annual)	Avg. Monthly Pension of New Pensioners (in som)
Old-age	429,074	401	15,677	372
Disability	55,218	285	6,878	270
Survivors	50,797	269	4,899	264
Exceptional Service	2,058	273	215	869
Military	3,325	250	239	586
Total	540472	378	27908	333

Source: Social Fund

127. One of the basic premises underlying the social security debate in industrial countries is that of individual choice. Individuals in these countries complain that investments placed in state pension systems are underperforming relative to private capital markets. The argument is made that individuals should be able to choose whether to invest their state pension contributions in private financial markets.

128. Nonetheless, the question of individual choice is not entirely relevant in the Kyrgyz Republic at this time, given the **underdeveloped nature of financial markets** and the lack of mature financial instruments (this is the situation in most developing countries.) Although an argument can be made that private pension systems can help create and develop financial markets (Mitchell (1998)), no assessment has been made of the risks involved with such an option. Movement to a partially funded system would have to take place in two steps. First, the Pension Fund would need to accumulate a surplus large enough to reduce contribution rates. In the second step, individuals would be allowed to shift the freed-up resources to privately managed pension funds, although this would only be possible once a private capital market emerged.

C. Conclusions

129. The Kyrgyz Republic has undertaken an ambitious pension reform. In an effort to maintain a consistent policy thrust in the transition to a market economy, the program aimed at reducing the financial obligations of the Republican budget. To achieve this goal and to ensure the financial sustainability of the pension system, the reform focused on strengthening the link between contributions and benefits. This included a number of parametric and other changes to the previous system.

130. Thus far, the reform has been successful at increasing contributions and reducing benefits. Although the Pension Fund still records a deficit, a surplus is expected to be achieved by 2005. Once the surplus is achieved, the possibility of reducing contribution rates will be discussed. It is hoped that the savings generated by a reduction in the contribution rate will be invested in private pension or other retirement funds.

131. The Social Fund has made significant progress in moving toward financial sustainability as well. In addition, the measures that have been taken as part of the reform of the pension system have been consistently implemented. A continuation of the progress made thus far is necessary in order to fully enjoy the benefits of a healthy and equitable pension system.

132. A key remaining issue facing policy makers is protection of the poor. Although the base pension has been maintained to provide some social assistance, it is low at only half the general poverty line and even below the food poverty line. Further complicating this issue is the lack of statistics measuring poverty among the elderly population. Thus, the magnitude of the problem may emerge only after some time has passed with the new system and as the economy expands.

VIII. BANKING SYSTEM IN TURMOIL⁴⁶

133. The Kyrgyz banking system experienced severe difficulties in the second half of 1998 and in 1999 leading to the closure of several of the country's largest financial institutions and a general loss of confidence in the banks. These problems were partly linked to the decline in economic activity and the large depreciation following the Russian crisis, but were exacerbated by inadequacies in supervision and the regulatory framework, which did not allow enforcement of appropriate accounting standards and prudential norms. Furthermore, weak bank management and interference by shareholders, as well as governance issues, including related to government bonds that had been issued to the gas and oil monopoly, played an important role.

134. In its response to the banking crisis, the National Bank of the Kyrgyz Republic (NBKR) took a number of measures in 1999 and 2000 to rehabilitate, recapitalize, restructure, or close various troubled banks, as well as to consolidate their nonperforming loans. However, the restructuring of the banking system has turned out to be more complex than initially envisaged. This is due to the initial case-by-case approach to solving the banking problems but also due to reluctance of the government to play a financial role, lack of trained staff at the NBKR, and inadequacies in the legal system.

135. The next section provides an overview of the major factors behind the problems in the banking system, while the authorities' policy response to mitigate the adverse effects of the

⁴⁶ Written by Harry Trines and Iqbal Zaidi.

crisis, and recent and prospective developments in the banking sector are described in the following section. A final section contains some concluding remarks.

A. Developments Prior to the 1998/99 Banking Crisis

136. Even before the onset of the banking crisis in the second half of 1998, the financial system had been burdened by a number of interrelated problems, mainly stemming from the roots of the former state bank system, inherited from the Soviet Union, and inexperience in operating banks in a market system. The banking system was underdeveloped, with banks offering limited services and the economy at large suffering from low financial intermediation. Banks were generally ineffective at mobilizing savings and allocating credit, and lending remained geared to the short term, owing to economic instability and banks' undeveloped credit skills. With large amounts of directed lending to loss-making state farms and enterprises, by late 1993 the basic underlying weaknesses in the banking system were becoming increasingly apparent, particularly following the decision by the NBKR to tighten monetary policy to control inflation. Many banks experienced difficulties in rolling over their short-term loans. However, the banks' insolvency problem could not be discerned promptly because of non-uniform accounting practices and the weak monitoring capacity of the NBKR, attributable in large part to the shortages of skilled staff. After the adoption of regulations in 1995 requiring on-site inspections of all banks and provisioning for doubtful loans, combined with some improvements in bank supervision, the full magnitude of the problem became evident with one half of all commercial banks showing negative net worth, and over 60 percent of banking sector's loans considered unrecoverable.

137. In late 1995, a comprehensive financial sector reform program was introduced, supported by an IDA Financial Sector Adjustment Credit (FINSAC). The main objectives of this program were to enhance the soundness of the banking institutions, restructure financially distressed banks, improve resource mobilization, and increase the efficiency of credit allocation by the banking system. More specifically, under the FINSAC program, the authorities liquidated the two biggest insolvent specialized banks (Agroprom and the Savings Bank (or Elbank)), and restructured, through private recapitalization, two other banks (Promstroï and AKB Kyrgyzstan Banks). A collection agency, DEBRA, was set up to recover the non-performing loans of these banks and part of the loans were written off. Furthermore, improvements to the legislative and regulatory framework were introduced, including a new Central Bank Law, Banking Law, the Collateral Law, the Bankruptcy Law, and part II of the Civil Code. A new Chart of Accounts for all banks became mandatory in 1997, and further steps were undertaken to strengthen banking supervision and prudential regulations in line with international standards.

138. By mid-1998, the above reforms had led to some turn around in financial intermediation and a small core of well-established banks emerged. Indicators of financial intermediation, such as broad money and credit to the economy increased significantly in the first six months of 1998 (by 12 percent and 50 percent, respectively). Also, confidence in the banking system, as measured by the currency-deposit ratio, and the money multiplier showed some signs of recovery (Figures 5 and 6)

Figure 5. Kyrgyz Republic: Indicators of Financial Intermediation I, 1995-99
(In percent)

Sources: Kyrgyz authorities; and Fund staff estimates.

Figure 6. Kyrgyz Republic: Indicators of Financial Intermediation II, 1995-99

Sources: Kyrgyz authorities; and Fund staff estimates.

1/ Annualized quarterly GDP/end-period broad money.

139. Nevertheless, a number of weaknesses remained. Bank regulation continued to be insufficient and not strictly enforced. This was not only the result of institutional weaknesses, but also a side effect of the fact that, despite the efforts by the authorities and major technical assistance programs by several donors, financial reporting in the banking sector and even more so in the non-banking sectors was often opaque and inaccurate. This made it difficult for the NBKR to detect and act upon problem bank signals in good time. Furthermore, the efforts aimed at strengthening bank oversight were undermined when a number of experienced staff in the banking supervision department of the NBKR left to take up higher-paid positions in the private sector. With regard to the commercial banks themselves, the liberalization of the financial markets increased banks' ability to engage in risky operations, but they continued to face difficulties in the hiring of staff trained in risk assessment, accounting and administration. Not surprisingly, lending continued to be largely short-term and for trade purposes, and at times was based on noncommercial reasons.

B. Major Factors Behind the Crisis

140. It was against this background, that, in August 1998, the Kyrgyz banking system was hit by the Russian financial crisis. Both directly and indirectly through its effects on the economies of neighboring countries, this crisis negatively affected the Kyrgyz economy. The decline in economic activity led to a worsening in the profitability of banks' customers, particularly large borrowers and state enterprises, and there was a significant increase in the volume of overdue payments in the banking system. A worsening balance of payments combined with the population's reaction to changes in the ruble/dollar exchange rate in Moscow, led to a sharp depreciation of the som, raising banks' foreign liabilities and exposing their balance sheets. As confidence in the currency deteriorated, residents converted part of their som deposits into cash dollars and nonresidents repatriated their deposits, which led to higher borrowing costs for borrowers.

141. This process continued well into 1999, with the public holding more currency than deposits despite rising inflation. The ratio of currency to deposits reached 115 percent, compared with 105 percent in 1998. Meanwhile, despite the withdrawals, foreign currency deposits rose relative to domestic currency (Figure 7), and demand for money fell sharply as the crisis worsened. Stocks of marketable government debt dwindled by more than two-thirds. The NBKR's reserve requirement policy further squeezed the bank's liquidity because reserves had to be kept in soms for both domestic currency as well as foreign currency denominated deposits. Meanwhile, banks' capital eroded because of the increase in the size of the non-performing loan portfolio and also because funding costs rose along with the public's perception that bank deposits were no longer safe investments. One important factor for the increase in the bad loan portfolio was that whereas a sizable portion of the loans had been denominated in foreign currency, most of the borrowers did not have earnings in foreign currency nor did they have the means to cover their foreign exchange risks. Developments in exposure to foreign exchange rate risk and portfolio quality are provided in the table on indicators of the banking system's financial strength (Table 23).

Figure 7. Kyrgyz Republic: Credit and Deposit Growth, 1995-99
(Percentage change over previous year)

Sources: Kyrgyz authorities; and Fund staff estimates.

Table 23. Kyrgyz Republic: Indicators of the Banking System's Financial Strength, 1997-2000

	2/1/97	1/1/98	10/1/98	1/1/99	4/1/99	7/1/99	10/1/99	1/1/00	4/1/00
(In som)									
Total assets	1,376,638.2	2,803,457.0	3,970,963.3	4,193,889.8	3,965,356.0	4,093,553.0	4,267,484.0	4,194,344.3	4,594,833.0
Total loans to private sector	535,656.0	1,053,787.0	1,764,135.2	1,796,450.0	2,044,443.0	1,517,215.0	1,538,377.0	1,532,231.0	1,517,506.0
Total capital	199,397.2	632,866.7	771,203.1	926,403.9	363,941.0	751,453.0	620,906.0	652,087.4	713,407.0
Portfolio quality									
Problem loans 1/	...	95,514.0	246,288.0	183,027.0	842,343.0	480,197.0	532,620.0	523,544.0	435,123.0
Provisions against problem loans	...	29,675.0	90,038.3	61,293.0	681,135.2	229,545.6	251,206.4	235,357.0	159,406.3
Other provisions for risks and charges	...	18,911.2	34,915.6	44,742.0	41,007.4	29,821.3	29,581.7	29,707.0	32,050.5
(In percent)									
Problem loans/total loans	...	7.4	12.1	9.0	36.1	26.7	28.8	29.9	23.1
Problem loans/total assets	...	3.4	6.2	4.4	21.2	11.7	12.5	12.5	9.5
Provisions against problem loans/problem loans	...	31.1	36.6	33.5	80.9	47.8	47.2	45.0	36.6
Total provisions/problem loans	...	50.9	50.7	57.9	85.7	54.0	52.7	50.6	44.0
Total capital/problem loans	...	662.6	313.1	506.2	43.2	156.5	116.6	124.6	164.0
Portfolio performance									
Average return on assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Average return on assets	1.0	3.4	6.4	1.5	15.0	-3.6	-5.9	-8.8	-1.0
Capital adequacy									
Total capital/total assets	14.5	22.6	19.4	22.1	9.2	18.4	14.5	15.5	15.5
Risk-weighted capital adequacy ratio	45.9	55.0	32.8	30.9	4.7 2/	5.2 3/	21.6 4/	23.9 5/	24.5 5/
(In som unless otherwise indicated)									
Exposure to exchange rate risk									
Total foreign currency assets 6/	478,883.0	1,068,879.0	1,589,286.0	1,906,893.0	1,789,721.0	1,872,609.0	1,934,944.0	1,980,715.0	2,378,956.0
Total foreign currency liabilities in foreign exchange 7/	488,510.0	980,148.5	1,538,129.0	1,856,678.0	2,144,572.0	1,894,632.0	1,985,598.0	1,985,169.0	2,331,997.0
Net exposure (assets minus liabilities)	-9,627.0	88,730.5	51,157.0	50,215.0	-354,851.0	-22,023.0	-50,654.0	-4,454.0	46,959.0
As percent of capital	-4.8	14.0	6.6	5.4	-97.5	-2.9	-8.2	-0.7	6.6
Foreign currency on-lending ratio (in percent)									
Credits in foreign currency/deposits in foreign currency	45.0	91.7	118.1	113.4	113.8	90.5	81.9	75.9	77.7

Source: NBKR, Banking Supervision Department.

1/ As determined by banking supervision, taking into account credit performance and collateral.

2/ Maksat Bank had negative total capital, while Kramds Bank had capital adequacy of 0.04 percent.

3/ Kramds Bank had negative total capital, while Bishkek Bank had capital adequacy of 0.05 percent.

4/ Kramds and Bishkek had negative total capital.

5/ Kramds had negative total capital.

6/ Foreign currency deposits, foreign currency loans to private sector, and foreign assets.

7/ Foreign currency deposits of private sector and of nonresidents, liabilities to nonresident banks.

Box 4. The Banking System: Crisis or No Crisis?

Although there were substantial deposit withdrawals from some banks and indeed demonstrations in front of some other banks with depositors demanding that they be given their deposits in the failed banks, there were no general bank runs that threatened the whole system. However, there were repercussions on other banks, and in general the development of financial intermediation suffered a severe setback. Although some of the withdrawals were subsequently redeposited in other banks, a significant part was moved into cash, including foreign exchange and foreign currency accounts, which aggravated the dollarization of the economy. It also undermined monetary control because of the high volume of nonperforming loans, the decline in treasury bill holdings and the reduced confidence in the banking sector.

142. Given the large share of lending denominated in foreign exchange in the banking sector, credit risk associated with the foreign exchange risk exposure of borrowers is important but difficult to assess, because there are no organized markets for hedging against exchange rate risks. Although some borrowers are, implicitly at least, partially hedged by the extensive dollarization of the economy, as indicated above, exchange rate risk was a major concern at the onset of the banking crisis. Net exposure of commercial banks to foreign exchange risk—as measured by the difference in assets and liabilities denominated in foreign exchange—increased very sharply in the first quarter of 1999. However, commercial banks have taken steps to reduce their net exposure, primarily by increasing their foreign exchange assets, and by the end of the first quarter of 2000, foreign exchange assets exceeded liabilities. Regarding portfolio quality, the ratio of problem loans to total loans also increased sharply in the first quarter of 1999 to reach 36.1 percent, but has since declined to 19.0 percent in the second quarter of 2000, which provides some indication of improved credit risk management and bank restructuring. Another indicator of the banking system's financial strength which provides further evidence regarding the recent positive developments is the ratio of total capital to problem loans, which has increased over this period from 43 percent to 163 percent.

143. Another major source of bank instability and the principal cause for the insolvency of some of the banks was the concentration of credit, far in excess of prudential norms, in particular to the petroleum and natural gas sectors. By February 1999, the banking sector had extended credit lines totaling som 800 million, or 40 percent of banking sector loans, to companies involved in the petroleum business against collateral in securities issued by the government to the state oil and gas company, KyrgyzGas Munaizat (KGM) and its affiliates.⁴⁷ In the event, this company ran up substantial losses, partly because subsidies on

⁴⁷ Due diligence conducted later by the NBKR revealed that the loans were extended in violation of the risk concentration limits. Mercury, the largest bank in the country—total assets of almost 18 percent of the total assets of the banking system in the first quarter of 1999—provided almost four-fifths of its loan portfolio to KGM and its affiliates. Mercury also concealed from the authorities three guarantees to the Central Asian Bank for Cooperation and Development (CABCD) for loans the CABCD had extended to KGM.

gas for households were not compensated from the budget, but also due to mismanagement and fraud. The government bonds that had been used by KGM as collateral for its borrowing appeared to have been accepted in good faith by the banks⁴⁸; but the quality was later questioned by the NBKR, and the bonds were subsequently recalled by the government.⁴⁹ Soon after the recall, KGM defaulted on its debt to the major banks (Mercury, Kramds, Bishkek, and Maksat) and was declared bankrupt, resulting in a severe deterioration in these banks' balance sheets.

144. The fact that several banks had not focused on maintaining strong balance sheets, but instead had often based their lending decisions on considerations other than commercial, including under pressure by the powerful vested interests (shareholders, bank management, and state enterprises) was only one side of the coin of nonperforming loans and their impact on bank solvency. The other side of the insolvency was that when these loans went into default, there was reluctance on the part of the banks to take the necessary measures to achieve recovery. Indeed, there were cases in which banks understated the defaulted amount by carrying out re-scheduling and re-structuring of loans in ways that did not meet the explicit criteria established by NBKR. In the worst cases, the insolvent banks had little incentives to avoid riskier projects, since any losses in excess of the already depleted capital would be borne by depositors and the public sector.

145. In the context of the 1995 restructuring program, a special effort had been made to assess and improve the reliability of accounting practices. However, controlling the proper classification of bank assets in accordance with established criteria proved very difficult, because of shortcomings in off-site supervision and inordinate delays in on-site examinations. The Bank Supervision Department of the NBKR had limited personnel resources to begin with but with the departure of many of the most experienced supervisors, the ability to detect and evaluate problem loans at an early stage was seriously undermined and problems were frequently not detected until much later when the on-site examinations were carried out. On-site inspections themselves did not take place on a regular basis, and thus supervisors were not able to enforce the constitution of adequate provisions for nonperforming loans. Although problem banks should have received special attention, and be

⁴⁸ Indeed, they were issued by the government.

⁴⁹ The bonds were intended to finance a triangular transaction whereby KGM would supply oil and gas products to a grain exporter who would supply grain to Uzbekistan instead of payments by government on its own debt. In the event, the Ministry of Finance paid the grain exporter directly. Though the underlying transaction was thus cancelled, KGM kept the bonds in payment of previous government arrears. The specific terms of the bonds remained uncertain, and the maturity and repayment schedule were changed a number of times.

subject to more frequent examinations, some of them were not even examined once every year.

146. Governance problems cut across several sectors and played a major role and were not limited to those mentioned above. There were many instances of fraud, connected lending and other violations against the banking laws. Perhaps the most glaring examples were those of shareholders of several problem banks, who through various mechanisms, rapidly withdrew funds to leave behind banks with zero or negative capital. At the same time, the weaknesses in the judicial framework made it difficult to enforce the banking laws, even when the banks were willing to take legal action. Even some of the legal actions pursued by the NBKR against owners and managers who had contravened various regulations proved to be futile. Despite the strong evidence which the NBKR was able to amass against the shareholders and managers of insolvent banks, some of them managed to obtain judgments in their favor in the courts.

147. Against this background, banking system capital eroded sharply in 1998 and asset quality deteriorated, despite efforts to address the problems (see below). The erosion of the banks' position continued well into 1999. As of end-1999, eleven licensed commercial banks out of 21 were making losses, resulting in an accumulated net loss for the system of about som 400 million and overall equity capital had eroded by over 40 percent (Table 24). Overall, five banks were insolvent, accounting for 30 percent of total banking assets and 39 percent of total deposits were unsolved. In addition, six other banks, of small to medium size, were experiencing asset and operating losses. These six banks, grouped as problem/potential problem, accounted for 20 percent and 15 percent of total system assets and deposits, respectively. Adversely qualified loans (Substandard, Doubtful and Loss) amounted to over 32 percent of total loans, compared with 12 percent at end-1998⁵⁰. These low quality loans represented 70 percent of capital and loan loss provisions, and with the inclusion of "watch" loans, the aggregate of such loans exceeded total bank capital and loss reserves. Loans overdue from individuals and legal entities were inordinately high at 37 percent of total loans. In the first quarter of 2000, there was some improvement: the quality of bank's loan portfolios improved and problem loans as a share of total assets and the share of banks' capitalization increased relative to the stock of problem loans. This trend continued in the second quarter.

C. The Policy Response

148. The NBKR's response to the banking crisis has had several dimensions including closing the largest insolvent banks, requiring shareholder capitalization of the remaining problem banks, requiring the banking supervision department to enforce basic prudential regulation more forcefully, strengthening supervision governing commercial banks'

⁵⁰ Inadequate information at end-1998 may account for some of this increase.

classification of nonperforming loans and related provisioning requirements, and providing liquidity to the system.

149. In January 1999, the NBKR placed Kramds Bank under conservatorship and repeatedly asked for the recapitalization of the bank by its shareholders during 1999 (Table 24).⁵¹ In March 1999, the NBKR closed Mercury Bank, the largest bank in the country and started liquidation proceedings; at the same time, it placed Maksat Bank, the second largest bank, under conservatorship. In April 1999, Maksat Bank's license was revoked and its good assets and most of its liabilities were transferred to a newly formed and NBKR owned bank, Kairat Bank.⁵² Subsequently, the majority of Kramds Bank's assets and some of its deposits were also transferred to Kairat Bank. In addition, the NBKR restricted the operations of the fourth largest bank, Bishkek Bank and asked for its recapitalization by its shareholders, although this did not happen. In December 1999, the NBKR began proceedings for the liquidation of Bishkek Bank, and finally in April 2000, closed the bank and transferred some of its assets and liabilities transferred to Kairat Bank. The four large banks mentioned above accounted for about 50 percent of assets of the banking system.⁵³ Overall, the NBKR extended over som 230 million in liquidity support to the banking system.⁵⁴

150. Until the beginning of 2000, the focus of the NBKR's effort was on tackling the problems of insolvent banks on a case by case basis. At the same time, significant improvements were made in bank supervision, including staffing and the quality of off-site analysis, and there is now a schedule for on-site inspections. By end-June 2000, eight banks had been inspected. A detailed training program (including an inspection manual prepared by Fund technical assistance) to further strengthen these capabilities is being developed. The NBKR also attempted to address some of the most obvious problems in the legal framework.

⁵¹ In the event, this did not happen until July 2000.

⁵² Also, in April 1999, the license of one smaller bank (Insan Bank) was revoked, but was returned in late 1999, once its temporary administration was lifted on decision of Supreme Arbitration Court.

⁵³ From the outset, Kairat bank (now the largest bank in the system) experienced high operating costs and immediately has run significant losses—it too is now insolvent.

⁵⁴ While, in principal, liquidity support by the NBKR should have been collateralized, this practice was not systematically carried out.

Table 24. Kyrgyz Republic: Developments in the Banking Sector, 1999-2000
(In millions of soms)

Bank	Assets			Liabilities			Share of total assets		
	1-Jan-99	1-Jan-00	1-Jul-00	1-Jan-99	1-Jan-00	1-Jul-00	1-Jan-99	1-Jan-00	1-Jul-00
Akylinvestbank	93	77	46	75	54	54	2.2	1.8	1.0
Amanbank	54	81	91	23	47	58	1.3	1.9	2.1
Avtobank	44	147	128	34	132	114	1.0	3.5	2.9
Bank Bakai	0	72	79	0	42	50	0.0	1.7	1.8
Bank of Asia	54	86	90	10	12	23	1.3	2.1	2.0
Bishkek 1/	399	190	...	359	285	...	9.5	4.5	...
Cabod	37	38	35	43	48	47	0.9	0.9	0.8
Demirbank	275	285	421	232	246	357	6.6	6.8	9.5
Doc-Kredobank	49	109	161	32	80	124	1.2	2.6	3.6
Ecobank	59	85	110	22	4	62	1.4	2.0	2.5
Energobank	36	134	249	25	107	222	0.9	3.2	5.6
Eridan	105	116	149	54	68	95	2.5	2.8	3.4
IBB	110	189	143	55	90	82	2.6	4.5	3.2
Insan	47	13	9	31	1	2	1.1	0.3	0.2
Issyk-kul	64	180	150	47	160	137	1.5	4.3	3.4
Kairat 2/	...	623	629	...	579	614	...	14.9	14.2
Kramdsbank 3/	337	19	17	286	107	123	8.0	0.5	0.4
Kurlush	192	302	366	167	286	338	4.6	7.2	8.2
Kyrgystan	248	469	530	151	364	415	5.9	11.2	11.9
Kyrgyzkredit	16	19	23	1	0	0	0.4	0.5	0.5
Maksat 4/	622	...	...	588	...	...	14.8	...	...
Mercury 5/	650	...	...	471	...	...	15.5	...	...
National Bank of Pakistan	...	...	72	...	...	20	...	...	1.6
Promstroibank	338	566	551	252	474	471	8.1	13.5	12.4
SSC	297	278	282	268	233	234	7.1	6.6	6.4
Tolubay	68	115	107	48	88	80	1.6	2.7	2.4
Total	4,194	4,193	4,438	3,274	3,507	3,722	100.0	100.0	100.0

Memorandum items:

Banks by financial conditions as of January 1, 2000:

	Assets 6/	Percent of Total	Deposits	Percent of Total	Capital 6/	Year-to-date profit/loss
Capital insolvent/imminently insolvent banks	1,192,576	29.6	1,037,777	38.8	-228,342	-419,511
Problem / potential problem banks	809,128	20.1	396,060	14.8	240,950	-41,426
Generally sound banks	2,027,407	50.3	1,239,125	46.4	516,690	60,250
Total (in thousands of som)	4,029,111		2,672,962		529,298	-400,687

Source: National Bank of the Kyrgyz Republic.

1/ Assets and liabilities worth 151 million soms transferred to Kairat Bank

2/ Includes 130 million soms injected by the National Bank of the Kyrgyz Republic in 1999.

3/ Assets of 195 million soms and liabilities of 151 million soms transferred to Kairat Bank.

4/ Assets of 169 million soms and liabilities of 306 million soms transferred to Kairat Bank.

5/ Assets of 170 million soms and liabilities of 306 million soms transferred to Kairat Bank.

6/ Adjusted for intangible assets.

151. Notwithstanding the above actions, the absence of an overarching strategy for bank restructuring, together with a lack of a shared understanding between the NBKR and the government in dealing with the banking system problems, have resulted in significant delays in taking appropriate and timely actions. The government was initially reluctant to resolve the issue of the KGM bonds,⁵⁵ and attempts to get the private sector to rescue insolvent banks, including frequent calls for recapitalization of banks by shareholders were mostly unsuccessful. In the process deadlines for action were moved time and time again. As a result, for most of 1999 confidence in the banking system did not improve. Meanwhile, the transfer of problem loans into Kairat Bank led to large operating losses for that bank, and the loan recovery effort has not yet shown any significant results. Also, with the NBKR shouldering the burden for bank restructuring, its resources—both human and financial—have been stretched to the limit. Finally, while prudential regulations for the banking system are in line with international practices, as mentioned earlier, the enforcement has proven difficult.

152. Recognizing the limitations of its earlier approach, in March 2000 the NBKR (with assistance from the Fund) designed a plan that aims to address the banking sector's problems in a more comprehensive way. The main elements of the plan, which has been approved by the government, include: (i) the formation of a high level policy committee to supervise bank restructuring; (ii) a shifting of bank resolution and restructuring functions from the NBKR to a separate bank restructuring agency; (iii) identification of supporting legal and institutional arrangements; (iv) a complete assessment of banks; (v) continued progress on strengthening bank supervision and oversight; and (vi) development of clear criteria for liquidating, restructuring, and recapitalizing banks. A timetable has been established to complete these main elements.

153. The newly formed committee, which has the Prime Minister in the chair, will be in charge of implementing the comprehensive bank restructuring program. The committee will: (i) set out a broad strategy and principles of bank resolution; (ii) identify impediments to banking resolution and devising a strategy for removing those impediments; (iii) determine the institutional, legal arrangements, and the specific reforms which are needed to support bank restructuring; and (iv) take decisions (or recommend decisions to the President) on matters of bank restructuring that involve the commitment of government funds. DEBRA—the restructuring agency established in 1996—will be given the task of pursuing recovery of nonperforming loans in a transparent and uniform way.⁵⁶

⁵⁵The government only in the beginning of 2000 decided to honor the bonds and agreed on a new repayment schedule, which improved the asset position of the remaining banks holding the bonds.

⁵⁶ According to the original plan DEBRA should have been dissolved in 1999 but the authorities had already decided to extend the period for its operations.

154. The authorities have also agreed that the costs of the bank rescue package should be borne by the government budget and not by the NBKR. One proposal is that the government would issue bonds to cover the costs of the bank rescue package in favor of the concerned institutions in lieu of the amount of loan defaults. Any shortfall in the loan recovery amount left at the end of DEBRA's life would have to be met with by the government by creating a special fund or allocations in annual budgets. With the adoption of the restructuring plan, the NBKR has moved to a new plane in dealing with the banking problems. In addition to liquidating Bishkek Bank, smaller banks were put under close supervision and Kurulush Bank was partially recapitalised. In August 2000 Kramds Bank and one of the small banks were removed from conservatorship as their owners recapitalised the banks. On-site inspections have been accelerated and, by mid-July, 11 financial institutions had been examined. In addition, external audits of 8 banks, financed by the Asian Development Bank, are ongoing. The authorities are also preparing a detailed restructuring plan (in cooperation with IMF staff) for Kairat Bank, and are in the process of strengthening DEBRA to be able to fulfill its new role.

D. Future Challenges

155. The difficulties in the banking system in the Kyrgyz Republic in 1998 and 1999 have underscored the weaknesses inherent in moving from a fully state controlled banking system to a more market orientated one in an environment that did previous not have adequate supervisory and regulatory agencies. They also highlight the importance of continued vigilance and ensuring that supervisors have adequate capacity to monitor banking operators. Furthermore, a proper functioning legal system that allows enforcement of regulation and tackling of governance problems, will be necessary. Recent progress toward the resolution of the banking problem has been encouraging, but the authorities have taken a long time in implementing some of the required measures, and more remains to be done to fully restore the financial health and profitability of the banks.

156. The NBKR has gained experience in dealing with failed institutions, and there is much greater recognition now that there should be effective and timely intervention whenever a commercial bank has a large build-up of problem loans. But, one of the lessons of the banking crisis is the need to consider the moral hazard problem, created by knowing that banks are such an important part of the payments system and the need to protect depositors. Incentives for bank managers had become distorted and, expecting that their banks were too large to fail, internal problems were not addressed or they engaged in too risky business activities. Thus bank rescue packages will have to ensure that heavy penalties are inflicted on those banks that are bailed out, not least to set examples as deterrents to others.

157. There is considerable pressure in the Kyrgyz Republic to establish a deposit insurance system. Indeed proposals have already been submitted to parliament. At this stage, it will be important to ensure that the banking system is in better shape before starting a deposit scheme and risking depletion of its resources at the outset.

158. Finally, the fiscal cost of the banking crisis will be borne by both the revenue and expenditure sides. On the revenue side, there will be the direct effect that tax revenues from banks will be reduced to the extent that increased loan losses reduce banks' taxable income⁵⁷. There will also be the indirect effect that revenues from the economy at large will also be lower because economic activity has been negatively affected by the bank failures and inefficient financial intermediation. On the expenditure side, the government will have to ultimately bear the cost of the banking restructuring; the exact size of the government's liabilities cannot be known until all of the contingencies have been accounted for and the audits of banks have been completed, but preliminary calculations indicate that they could be sizable.⁵⁸ There could also be other fiscal costs on top of the bank restructuring costs, including, for example, the fact that some government entities had placed funds with the failed banks, and the likelihood of recovering those funds appears to be quite low.

IX. FISCAL POLICY ISSUES⁵⁹

159. This section describes some of the fiscal challenges the Kyrgyz Republic is facing both in the revenue and expenditure areas and discusses fiscal transparency issues.

A. Expenditure and Revenue Developments

160. On the expenditure side, two distinct developments have been notable over the past five years. First, current and capital expenditure moved in opposite directions, leaving their combined share of GDP almost unchanged. Current expenditure decreased from 25 percent of GDP in 1995 to 20½ percent in 1999, and over the same period capital investment rose from below 5 percent to 10½ percent of GDP. Second, significant shifts took place within current expenditure. While between 1995 and 1999 expenditure on wages fell as a share of GDP from almost 10 to less than 6 percent, and that on transfers from about 7 to around 2½ percent, interest expenditure climbed from less than ½ percentage point of GDP to 3 percent of GDP (of which over 80 percent is on foreign interest obligations).⁶⁰ These expenditure trends raise questions with respect to the medium-term fiscal outlook: Do these trends simply reflect the necessary structural changes of the transition process, and thus will

⁵⁷ Given the fact that overall in 1998 and 1999 banks experienced losses this effect may not be very significant.

⁵⁸ On the order of 1–1.5 percent of GDP, although more recent estimates show lower amounts.

⁵⁹ Written by Christian Keller and Tetsuya Konuki.

⁶⁰ Wages include social contributions; transfers include unemployment compensation, student stipends, military pensions and housing subsidies.

ultimately strengthen the fiscal position? Or do they present non-viable fiscal developments, the reversal of which will require the adoption of specific policy measures?

161. In general, a decline of current expenditure can be seen as a typical phenomenon of an economy that is in transition from plan to market, and therefore needs to reduce the size of the public sector. Indeed, the contraction of the Kyrgyz government's wage bill has been partly due to retrenchment in public sector employment, as ministries were reorganized, redundant positions eliminated and management techniques modernized. However, expenditure savings also resulted from a fall in the real value of public sector wages as high annual inflation rates were not matched by any wage increase during the last three years. Similarly, expenditure on transfers shrank not only due to the tightening of eligibility criteria and the elimination of widespread privileges, but also due to a decline in the real value of benefits in absence of effective indexation mechanisms. This raises questions whether these adjustments are sustainable or whether efforts need to be made to reduce employment further and to rationalize social expenditures more than has taken place. Indeed, the authorities are planning a substantive public administration reform starting in 2001, and changes to the social benefits system are also underway (Box 5).

Box 5. Social Assistance Programs in the Kyrgyz Republic

The **unified monthly benefit (UMB)** is a means-tested cash benefit given to the poorest families. It covers 10 percent of the population and is paid in respect of dependent members—mainly children—of eligible households. The benefit is determined as the difference between the minimum guaranteed level of consumption (currently som 100) and the average aggregate income of the family/citizen, with a maximum benefit of som 100 per month. In 1999, 487.5 thousand people received an average benefit of som 47.3 with total spending of som 380 million. UMB recipients also are eligible for privileges on electricity and coal tariffs.

State social benefits are categorical cash benefits payable to orphans, certain groups of invalids, and retirees ineligible for pensions, specified as percentages of the maximum per capita income threshold for UMB (e.g. 150 percent for full orphans). Social beneficiaries also qualify for housing and utility privileges.

Privileges are pricing discounts of up to 100 percent for a wide array of goods and services for 11 broad categories of individuals. The central government budget is to reimburse providers, but this is sometimes delayed, partial, or nonexistent. The cost of privileges financed from the budget was about som 180 million in 1999, about half for energy price discounts (since 1998 in the form of a coupon system). Most privileges are categorical and many members of the privileged groups do not have low incomes.

In the city of Bishkek, there is also a means-tested **program of housing subsidies**. The subsidy compensates eligible households for the difference between the household payment due for utilities consumed within certain standard norms and a given share of household income (currently set at 23 percent of household income). At present this program only covers households living in apartment style multi-flat housing.

Finally, users of electricity receive support in the form of **lifeline tariffs**, involving marginal prices for successive blocks of energy use. This ensures low tariffs (relative to cost) for households that limit their consumption to no more than 90kWh per month.

The government is augmenting these social protection measures under a World Bank program, including compensation for energy tariff increases for low-income households, and categorical assistance to five categories of currently privileged households. Concurrently, the government has submitted a draft law aimed at streamlining privileges and reducing the aggregate costs.

162. Total expenditure on education and health declined significantly. Both sectors experienced substantial retrenchments between 1995 and 1999, when overall expenditure on education fell from 6.5 to 3.9 percent of GDP and that on health from 3.7 to 2.3 percent of GDP. Yet, non-wage expenditure fell much less than overall expenditure, indicating that the drastic cuts largely stemmed from falling real wages and to some extent shedding of staff and has not necessarily been at the cost of the quality of the services in these sectors. Over-staffing, duplication of facilities, and an overemphasis on non-essential services inflated spending in both sectors in the past and continue today. Consequently, a further streamlining of activities, better targeting, and improved resource management should allow the quality of education and health services, even under tightened resource allocation, to be maintained.⁶¹

163. The steep rise in capital expenditure has been almost entirely financed by external borrowing. Having started in 1994, the foreign financed public investment program (PIP) reached 9½ percent of GDP in 1999, and accounted for 65 percent of the external budget financing in the same year. Currently, some 50 foreign financed PIP projects are underway, including works such as the construction of the Bishkek-Osh road, the rehabilitation of KyrgyzEnergo power, the reconstruction of the Manas airport, irrigation rehabilitation and agricultural development projects, with an undisbursed pipeline in excess of \$450 million (or close to 40 percent of GDP).⁶² The large investment program has contributed to the rapid increase in the stock of public and publicly guaranteed debt in recent years. In 1999, the latter reached almost 100 percent of GDP (excluding IMF and Kumtor-related debt). Similarly, as noted above, debt service payments have increased substantially. Debt service by the budget in 1999 (including principal payments) amounted to 2.8 percent of GDP, absorbing 18 percent of fiscal revenue (excluding grants) and representing about 14 percent of current expenditure. Projections based on the general parameters underlying the medium-term projections of the PRGF program show that these ratios will worsen in the future. These projections show that the fiscal position is likely to remain under pressure, with little room for other expenditures, unless revenues can be raised or debt service expenditures reduced.

164. Against this background, the authorities have taken steps to improve the implementation of the PIP, enhance expenditure control, and establish standard criteria for project selection and evaluation. A unit in the Ministry of Finance was established to monitor financial flows, and starting in August 2000, project implementation units will report to the Ministry of Finance on a monthly basis. Further, a system of project selection criteria has been introduced. Existing projects were prioritized and several delayed or suspended. Criteria to be used to classify both on-going and proposed future projects include: (i) compliance of project with strategic goals regarding economic development and growth, especially in the context of the PRSP; (ii) impact of the project on economic, social, and ecological

⁶¹ More details can be found in Kyrgyz Republic: Review of Social Expenditure, World Bank, July 2000.

⁶² The total size of the current PIP is about \$675 million.

conditions; (iii) prospects for economic growth, given the structure of GDP; (iv) social importance, which will be determined by the projects prospective impact on social security provision, unemployment, poverty alleviation, the delivery of social services such as education and health care, and the environment; (v) and the need for counterpart funds and future operating and maintenance expenditures. An inventory of investment projects financed by international financial institutions and donor countries has recently been completed. The inventory will allow the authorities to reassess project implementation and viability, and thus provide a guide for determining the benefits of future projects.

Table 25. Kyrgyz Republic: External debt service (in percent) 1/

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
To GDP	4.5	5.4	5.4	3.4	3.9	3.9	4.4	4.3	4.5	4.5	4.1
To fiscal revenue 2/	31.3	32.8	30.9	18.7	20.1	20.0	22.4	21.5	22.6	22.6	20.4
To current expenditure 3/	21.6	27.4	28.6	20.3	22.1	22.3	24.2	23.3	24.8	25.1	23.2

1/ excluding IMF

2/ excluding grants

3/ including amortization

165. Reform of the public utility companies is a further necessary step to improve the fiscal position. The implicit subsidies for electricity, heating and gas were estimated to be as much as 9 percent of GDP in 1998. Poor performance of these enterprises reflected the lack of cost-effective tariffs, an extensive system of privileges and low collection rates in general due to theft, the lack of metering and disconnection policies, and poor incentives to improve efficiency. The authorities have now initiated a comprehensive restructuring plan of the utility sector, as agreed with the World Bank and other creditors. Gas tariffs were increased to market levels, and, as of June 2000, were unified for privileged and nonprivileged users. In addition, electricity tariffs were raised by 40 percent in the first half of 2000, an increase that exceeded inflation and depreciation and therefore should improve the financial position of the electricity company. Further steps, including tariff increases are scheduled.

166. On the revenue side, tax revenues have shown an almost continuous decline. Tax revenue fell from 15 percent of GDP in 1995 to less than 12½ percent in 1999. This ratio is low both by international standard and among CIS countries. Indeed, with the exception of excises, revenue as a share of GDP was lower for every tax category in 1999 than it had been four years ago, with income taxes generating only a little more than half of what they had in 1995. In principle, the four major taxes—VAT, excise, income and profits—taken together should provide for a simple and transparent tax system. However, taxes and fees levied through various special legislative acts often impose heavy burdens on specific bases

whereas significant loopholes exist for others. Moreover, compliance costs are high because the tax code is new and still in flux (changes to the tax system are summarized in Appendix I).

167. There has been a growing reliance on nontax revenues. In the face of weakening tax revenues, nontax revenue almost tripled since 1995, making up over 17 percent of total revenue (including grants). Next to government fees, and revenue from automobile registration, penalties etc., the so called “special funds”—still at zero in 1995—have become the driving factor behind nontax revenue over the past years. These special funds are typically raised by local governments and institutions such as hospitals or universities in the form of additional fees demanded for their services. Although it is common for revenue systems to have certain institutions charge fees from those who use specific services and therefore should cover the related costs (equivalence principle), the special resource measures in the Kyrgyz Republic stem from the lack of resources at the central level. Since special funds are guaranteed to at least partially remain within the collector’s own budget, the collection effort is strong and revenue creation comparatively high. However, the ad hoc levying of fees at the sub-national level clouds the transparency of the revenue system (see below), and also raises equity concerns as additional fees are usually levied where they can be best enforced regardless of ability-to-pay considerations.

168. The authorities are in the process of considering a number of measures to improve the tax system and raise revenue collection. First, the authorities have begun to work on the draft of a modernized system for presumptive taxation of small businesses, which will improve the existing patent system. Second, the authorities are considering a switch to the destination principle in trade with Russia, which would increase VAT revenue significantly, since the Kyrgyz Republic is a net importer from Russia. The destination principle is already applied with respect to most countries except for a few in the CIS. This move will be coordinated with Russia and cover all imports, except petroleum products.

169. In the area of trade, the customs code will be overhauled. Its current form has proven to be too detailed, complex, and difficult to understand both for the customs administration and the trade community. There are a wide variety of exemptions from customs duties and taxes available to importers. In 1999, the revenue foregone from these exemptions was estimated to be around 50 percent more than the revenue collected. The State Customs Inspectorate (SCI) is faced with complex verification responsibilities, particularly related to the WTO valuation agreement, rules of origin, and tariff classification. In order to enhance customs revenue by making best use of their scarce resources, the SCI has recently established a small post-release verification and anti-smuggling teams on the basis of Fund technical advice. These teams are expected to enhance revenue and contribute to the modernization of customs administration. The majority of resources of the SCI are devoted to controlling the legitimate traders who voluntarily report to the customs administration. In the meantime, insufficient resources are assigned to address major smuggling activities and revenue loss due to smuggling is reported to be sizable (for example, around 40 percent of imported tobacco).

170. Finally, the authorities are considering increasing taxation of the agricultural sector. Although agriculture accounts for the largest share of GDP, the sector's contribution to tax revenue has remained marginal so far, because it is exempt from virtually all taxation. In the short term, an increase in the land tax is likely to be the first step. Over the medium term, there are proposals to impose VAT, both on agricultural commodities and processed goods, possibly granting exemptions for certain inputs (fertilizers and seeds), although these proposals are in an early stage.

B. Fiscal Transparency

171. Fiscal transparency is one of the key aspects of good fiscal management and governance, because it requires policy makers to be open about the structure and functions of government, fiscal policy intentions and projections, and the public sector accounts. Fiscal transparency strengthens accountability and can enhance policy credibility, the benefits of which will be reflected in lower borrowing costs and stronger support for sound macroeconomic policies by a well-informed public.

172. In 1998, the Fund adopted a Code of Good Practice on Fiscal Transparency.⁶³ This code enumerates a list of principles to ensure transparency, including:

- Clarity of roles and responsibilities in the government sector;
- Full provision of public information on past, current, and projected fiscal activities of the government;
- Conducting budget preparation, execution and reporting, including policy objectives, assumptions, and identifiable major risks, in an open manner; and
- Public and independent scrutiny of fiscal information.

173. At this stage, the Kyrgyz Republic appears to have a somewhat mixed experience in adhering to these principles. With regard to the first point, while there is some clarity of roles between different levels of government, there is considerably less of a distinction vis-à-vis the government and the private sector. The government's involvement in the economy is considerable and not well-defined. Faced with a lack of revenues at the central level, there has been a proliferation of special purpose funds derived from fees and charges that do not adhere to the principle of cost recovery. Further, some public institutions engage in nontransparent quasi-fiscal activities. Although the legal framework for fiscal management is well laid-out, administrative accountability is not, and the authorities acknowledge that tax

⁶³ This Code is elaborated in the Fund's *Manual on Fiscal Transparency*, which can be found on the website <http://www.imf.org/fiscal>.

payers, for instance, have expressed difficulties in understanding the tax code and administrative practices.

174. The Kyrgyz authorities publish fiscal execution information through monthly statistical bulletins, and year-end reports are forwarded to the legislature and the auditor within six months of the year-end (although there is no formal commitment in law to publish fiscal information). Thus, a good deal of public information concerning fiscal activity of the government is made available to the public. However, this information is incomplete in a number of respects. The Social Fund, which is significant both in fiscal terms and in its role in social policy, is not included in the budget, although a separate statement of the Fund is provided to the Parliament; information on contingent liabilities is not available; the government's equity participation in private companies is not clearly reported in public statements (although some information on this is provided to a limited extent); and a public statement on the financial assets of the government is lacking.

175. With regard to the third principle, the budget is formulated on the basis of three-year rolling estimates of revenues and expenditures and there are some general statements made on medium-term priorities. The budget classification system corresponds to the GFS system and provides information by economic and functional classification and by administrative agency. Thus, some elements of this principle are now followed. Even so, important elements of transparency are missing as well, such as a clear statement of assumptions used in formulating the budget, an elaboration of risks, and the difficulty in tracking expenditures at lower levels of government.

176. The fourth principle, regarding public and independent scrutiny of fiscal information is more or less adhered to, although there is no legal basis for this to occur. The constitution only requires the Chamber of Accounts (the public auditor) to report to the President and the legislature on the state of the public accounts, but there is no institutional arrangement to ensure that its recommendations are followed. (However, the independent National Statistics Committee also provides information on these accounts.)

177. Looking ahead, the authorities have expressed their intention to implement the Minimum Standard of Fiscal Transparency (based on IMF codes) by mid-2002. Some small steps have already been taken toward this end, such as the setting of monthly financial cash plans, cash limits and limits for offset operations for government each government ministry.

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Kyrgyz Republic: Summary of the Tax Structure as of end-1999

Tax	Nature of Tax	Rates	Exemptions
Income tax	<ul style="list-style-type: none"> • Comprehensive, encompassing all sources of global income (both monetary and in-kind). • For non-residents, applicable to income earned in the Kyrgyz Republic only. • Tax revenues are allocated to Republican budget (65 percent) and local budgets (35 percent). 	<p>Up to 5 times minimal annual wage – 5 percent of the income amount.</p> <p>From 5 to 20 times minimal annual wage – tax amount from 5 times minimal annual wage plus 10 percent of the amount exceeding it.</p> <p>From 20 to 100 times minimal annual wage – tax amount from 20 times minimal annual wage plus 20 percent of the amount exceeding it.</p> <p>Over 100 times minimal annual wage – tax amount from 100 times minimal annual wage plus 33 percent of the amount exceeding it.</p>	<ul style="list-style-type: none"> • State allowances, stipends, personal gifts, alimonies, life insurance benefits, income transfer as a result of divorce, pensions, and unemployment benefits. • Additional allowance for work in highland conditions. • Compensation payments for work accidents, health insurance payment for trauma. • Income from the sale of apartments, residential houses, cars owned by taxpayers, income from the sale of livestock, poultry or other animals alive, raw or processed, income from the sale of goods grown in the taxpayer's personal lot, income from the sale of blood. • Allowances received by people working in the Ministry of Internal Affairs, State Security Ministry and Defense Ministry (allowance in cash, addition for military rank and for length of service). • Inheritance. • Interest income, insurance compensation, in-kind gifts from enterprises, emergency financial assistance. • Members of peasant and farmer communities for whom land is a principal means of production • Dividends reinvested in an enterprise for technical reconstruction. • Incomes of invalids and veterans of wars, widows of military men perished in wars, except incomes from economic activities.
Social insurance deductions	<ul style="list-style-type: none"> • Levied on all types of income. • Consist of contributions to the Pension Fund, Employment Fund and Health Insurance Fund. • Collected and managed by the Social Fund. 	<p>Employers: 31 percent <i>of which:</i></p> <ul style="list-style-type: none"> • 25.5 percent to the Pension Fund • 1.5 percent to the Employment Fund • 2.0% Social Insurance Fund • 1.5 percent to the Health Insurance Fund <p>Employees: 7 percent <i>Of which:</i></p> <ul style="list-style-type: none"> • 6.5 percent to the Pension Fund • 0.5 percent to the Employment Fund 	<ul style="list-style-type: none"> • In the agricultural sector, employers' contribution to the Pension Fund is on quarter of the land tax base rate. • Although legally introduced in January 1997, the increased rates for health insurance have not been collected so far.

Kyrgyz Republic: Summary of the Tax Structure as of end-1999

Tax	Nature of Tax	Rates	Exemptions
Profit tax	<ul style="list-style-type: none"> • Complex cash, accrual or combined basis tax applicable to all legal entities engaged in business activity in Kyrgyz Republic. • Tax Base is defined as total revenue minus total expenses. • The following is deductible when determining a taxable income : <ol style="list-style-type: none"> (1) Traveling expenses with daily benefits deductible within an amount fixed by the Government; (2) Deduction of interest paid on a credit can not exceed the sum of the taxpayer's interest income plus 50 percent of the taxable income; (3) No deduction is allowed for the cost of acquisition or installation of capital assets. • Losses can be carried over for five years as a deduction. • Depreciation: currently five categories (in percent per year): <ol style="list-style-type: none"> (1) Automobiles - 30 percent (2) Automotive fleets - 25 percent (3) Depreciable assets and expenses of the same status not included in another category - 20 percent (4) Railroad, sea and river transportation equipment - 10 percent 	<ul style="list-style-type: none"> • 30 percent for taxable profit • 0 percent for dividends • 5 percent on interest income 	<ul style="list-style-type: none"> • Exemptions apply to <ol style="list-style-type: none"> (1) Non-profit public organizations for income from charity activities, profits of correctional institutions; (2) Legal entity in which the blind and the deaf comprise over 70 percent of the total employees; (3) Registered enterprises with foreign capital participation based on the foreign investment law as follows: <ol style="list-style-type: none"> (a) during the first 5 years for profits from activities in the area of industry or construction; (b) during the first 3 years for profits from mining and processing of natural resources, agriculture, transport or communications; (c) during the first 2 years for tourism, trade, banking or insurance activities. • Tax reductions are available to enterprises with foreign capital invested upon the expiration of exemption period: <ol style="list-style-type: none"> (1) by 50 percent for reinvested profits; (2) by 25 percent, if no less than 50 percent of manufactured production and services is exported; (3) by 25 percent, if no less than 50 percent of the production is manufactured from imported raw materials; (4) by 25 percent, if no less than 20 percent of the profit is used for professional training.

Kyrgyz Republic: Summary of the Tax Structure as of end-1999

Tax	Nature of Tax	Rates	Exemptions
VAT	<ul style="list-style-type: none"> • Credit-invoice method. • Applicable to legal entities. • Turnover threshold for registration: 100,000 soms. • Provision for voluntary registration. • Credit allowed for VAT acquired on material resources (including raw materials and equipment, fuel, spare parts, etc.). Credit arises upon shipment of goods (accrual principle). • Excess credits are carried forward to the next VAT tax period and may be offset against other tax liabilities. • Origin basis for trade with Russia, and destination principle for trade with other countries. 	20 percent flat	<ul style="list-style-type: none"> • Zero rated: <ol style="list-style-type: none"> (1) exports to another CIS countries, and (2) diplomatic privileges. • Exemptions: <ol style="list-style-type: none"> (1) Land and buildings (2) Financial services (3) Insurance and pension services (4) Postal services (5) Municipal transport services (6) Privatization (7) Supplies by non-profit organizations (8) Gambling (9) Specified imports goods (10) Imports by taxable subjects of fixed assets for direct use (11) agricultural supplies (12) food processing
Right-to-trade	<ul style="list-style-type: none"> • Local tax 	• Ranges from 0-2 percent.	

Kyrgyz Republic: Summary of the Tax Structure as of end-1999

Tax	Nature of Tax	Rates	Exemptions
Excises	<ul style="list-style-type: none"> • Cover alcohol beverages, tobacco, coffee, tea, carpets, crystal, electronic goods, jewelry, leather goods, fur, firearms and gas weapons, gasoline and distilled petroleum products. • The taxable base for domestic goods is given by wholesale price excluding other taxes. For imported goods it is the customs value of the goods. • Rates are recalculated quarterly with adjustment for inflation according to procedures determined by the government. 	<ul style="list-style-type: none"> • Vodka: 44 soms/liter • Wine: 10 soms/liter • Spirits: 80 soms/liter • Beer: <ul style="list-style-type: none"> - Bottled or canned: 3.2 soms/liter - otherwise -2.0 soms/liter • Champagne: 20 soms/liter • Cognac: 28 soms/liter • Fermented tobacco: 4 soms/kg • Cigarettes: <ul style="list-style-type: none"> -with filters: 64 soms/thousand -without filters: 16 soms/thousand • Petroleum products: <ul style="list-style-type: none"> -benzin: 3,000 soms/ton -diesel fuel and fuel oil: 1,200 soms/ton -oils and gas condensate: 1,400 soms/ton -crude oil: 600 soms/ton • crystal: 20 percent • gold: 15 percent 	<ul style="list-style-type: none"> • Exports of excisable goods if exported to CIS countries. • Goods imported by physical persons in limited amounts set by the Government. • For the following imported goods: <ul style="list-style-type: none"> - Goods necessary for operation of vehicles for international cargoes, transportation etc.; - Goods damaged before crossing the border; - Humanitarian assistance; - Charity purposes, including technical assistance by the state, government and international agencies; - For use by foreign officials, members of the diplomatic corps; - Goods in transit for re-exporting.
Customs duties	<ul style="list-style-type: none"> • Levied on non-excisable goods. 	<ul style="list-style-type: none"> • 10 percent flat rate for non-oil goods. • 20 percent rate for computers 	<ul style="list-style-type: none"> • Goods imported from CIS-countries if produced within the CIS. • Goods produced by companies located in Free Economic Zones. • Imports of property for the use of an enterprise with foreign participation according to the Foreign Investment Law.

Kyrgyz Republic: Summary of the Tax Structure as of end-1999			
Tax	Nature of Tax	Rates	Exemptions
Land tax	<ul style="list-style-type: none"> • Applicable to physical and legal land users. • 75 percent of the tax obligation is collected during the third and fourth quarter of the current year (before December 25th) from the current year's crop. • 25 percent is collected from the previous year's crop during the first quarter. (before March 25th). 	<ul style="list-style-type: none"> • For agricultural areas, the amount of the tax is determined based on quality (fertility) of soils, location and area of the land lot. • For non-agricultural use areas, the infrastructure and town planning potential is also take into account. 	<ul style="list-style-type: none"> • Tax reduction of 50 percent for areas rated by the Government of the Kyrgyz Republic as difficult lots with unfavorable natural and climatic conditions. • Exemptions: <ul style="list-style-type: none"> - national parks and sites with historical significance or used for cultural purposes etc.; - cemeteries; - cattle tracks and cattle stopping places; -land used by enterprises subsidized or financed by the budget; -land used by organizations of invalids, or participants of the war; -land belonging to the Society of the Deaf and the Blind; -land reclaimed for agriculture in a previously barren condition (requiring recultivation) for a period set by the local Kenesh.
Extraordinary Fund	<ul style="list-style-type: none"> • Applied to enterprises, associations and organizations as a percentage of turnover. 	<ul style="list-style-type: none"> • 1.5 percent of turnover. 	
Road tax	<ul style="list-style-type: none"> • Applied to enterprises, associations and organizations, based on turnover on manufacturing and construction enterprises, and commodity turnover, for warehouses. 	<ul style="list-style-type: none"> • 0.8 percent of turnover for manufacturing and construction enterprises. • 0.08 percent of commodities turnover for warehouses. 	

Table 26. Kyrgyz Republic: Progress in Transition, 1995-99 1/

	1995	1996	1997	1998	1999
Private sector share of GDP (percent) 2/	40	50	60	60	60
Enterprises 3/					
Large-scale privatization	4	3	3	3	3
Small-scale privatization	4	4	4	4	4
Enterprise restructuring	2	2	2	2	2
Markets and trade 4/					
Price liberalization	3	3	3	3	3
Trade and foreign exchange system	4	4	4	4	4
Competition policy	2	2	2	2	2
Financial institutions 5/					
Banking reform and interest ratio liberalization	2	2	3-	3-	2+
Securities markets and non-bank fiscal institutions	2	2	2	2	2
Legal reform					
Extension and opportunities of legal rules on interest	2	2	n/a	n/a	n/a

Source: EBRD Transition Report.

1/ Based on the transition indicators produced by the EBRD, Table 2.1, Transition Report. For detailed classification, see various reports.

2/ EBRD mid-year estimate.

3/ For enterprises, in general a "1" ranking signals little private ownership or progress while a "4+" signals standards and performance typical of advanced industrial economies.

4/ For markets and trade, a "1" ranking signals extreme controls, while "4+" is typical of standards and performance of advanced industrial countries.

5/ For financial institutes, a "1" ranking signals little progress, while "4+" is typical of standards and performance of advanced industrial countries.

Table 27. Kyrgyz Republic: Value Added in the Main Production Sectors, 1995-2000

	1995	1996	1997	1998	1999	2000	
						QI	QII
(In millions of som)							
Nominal GDP	16,145.1	23,399.3	30,685.7	34,181.4	48,321.1	9,181.3	11,957.2
Manufacturing	1,931.3	2,587.9	5,077.4	5,559.2	8,845.7	2,232.2	2,695.2
Construction	992.5	1,396.6	1,384.8	1,537.3	1,882.8	271.2	728.4
Agriculture and forestry	6,568.1	10,838.3	12,638.7	12,324.2	18,520.3	1,866.0	3,109.3
Transport and communications	731.7	1,071.5	1,290.0	1,535.0	2,134.3	303.3	354.4
Others 1/	5,921.5	7,505.0	10,294.8	13,225.7	16,938.0	4,508.6	5,069.9
(In percentage change from previous year)							
Real GDP growth	-5.4	7.0	10.0	2.1	3.6	1.0	12.7
Manufacturing	-24.7	3.9	39.7	5.3	-1.7	-4.8	11.0
Construction	62.5	0.0	-17.0	-27.7	-5.0	10.5	108.0
Agriculture and forestry	-2.0	15.2	12.3	2.9	8.7	3.6	15.8
Transport and communications	-0.7	9.8	4.6	-1.8	3.4	1.0	5.1
Others 1/	-10.4	5.3	9.8	6.9	5.1	3.7	6.0
(In percent of GDP)							
Share of GDP							
Manufacturing	12.0	11.1	16.5	16.3	18.3	24.3	22.5
Construction	6.1	6.0	4.5	4.5	3.9	3.0	6.1
Agriculture and forestry	40.7	46.3	41.2	36.1	38.3	20.3	26.0
Transport and communications	4.5	4.6	4.2	4.5	4.4	3.3	3.0
Others 1/	36.7	32.1	33.5	38.7	35.1	49.1	42.4

Source: National Statistical Committee.

1/ Includes services industry: trade and catering; procurement; supplies; information and computing services; real estate; geological; business services; and others.

Table 28. Kyrgyz Republic: Industrial Production by Sector, 1995-2000
(Volume, percent change)

	1995	1996	1997	1998	1999	2000 1/	
						QI	QII
All industry	-36.9	3.9	39.7	5.3	-1.7	-4.8	...
Electricity	...	10.1	-9.7	-7.3	7.5	5.7	14.2
Fuel industry	...	37.4	400.2	21.3	27.7	34.9	37.1
Ferrous and nonferrous metallurgy	...	2.8	388.2	22.6	-4.6	-6.8	-2.0
Chemicals and petrochemical industry	...	-1.8	3.7	-44.0	270.7	-50.1	35.1
Machine building and metalworking	...	3.4	-14.1	-1.2	1.9	-30.2	-19.1
Forestry, woodworking, pulp and paper industry	...	-38.6	49.8	-11.9	-20.8	-11.0	13.3
Construction materials	...	1.4	21.9	7.2	-30.5	-20.0	-7.7
Light industry	...	-4.9	-13.5	31.9	-7.8	28.7	36.3
Textiles	...	...	-15.4	-32.1	-12.5	17.3	17.0
Clothing	...	...	-13.1	-10.6	50.0	264.9	59.0
Leather and shoe	...	...	-26.4	-54.2	-37.3	53.9	57.0
Food industry	...	-0.9	3.0	11.6	-10.9	-7.7	2.3
Sugar	...	...	-46.1	-1.7	-20.3	-1.3	-4.3
Alcoholic beverages	...	...	8.8	-4.7	-30.4	20.7	45.9
Tobacco	...	...	66.2	59.8	9.3	-5.4	-13.2
Meat	...	...	-46.0	-22.6	5.7	15.8	28.9
Dairy products	...	...	27.1	14.6	1.3	3.3	10.6
Flour and cereals	...	...	18.0	4.1	-1.6	-18.7	-7.0
Printing and publishing	...	...	23.1	43.3	-24.1	-30.6	-30.3

Source: National Statistical Committee.

1/ Over same quarter previous year.

Table 29. Kyrgyz Republic: Output of Selected Industrial and Manufacturing Products, 1995-2000

	1995	1996	1997	1998	1999	2000	
						QI	QII
Coal (thousand tons)	463	410	522	432	417	80	58
Oil (including condensate) (thousand tons)	89	84	85	77	77	18	19
Natural gas (million m3)	36	26	24	18	25	7	6
Electric engines (AC) (thousand)	49	44	27	14	1	0	0
Steel-cutting machines (units)	27	17	44	12	0	0	3
Stamping machines (units)	0	2	10	35	14	0	5
Centrifugal pumps (thousand)	12	7	5	2	1	0	0
Trucks (thousand)	8	1	12	0	0	0	0
Hay-compacting machines (thousand)	201	17	0	13	6	0	0
Cement (thousand tons)	310	546	658	709	386	60	135
Window glass (million m2)	2	3	2	2	1	0	0
Roofing sheets (millions of pieces)	66	102	129	150	132	22	32
Rugs (thousand m2)	979	768	326	232	33	10	4
Textiles (thousand m2)	23,163	29,253	25,191	16,765	14,033	3,910	2
Knitted fabrics (thousand pieces)	1,512	745	1,119	634	411	62	18
Shoes (thousand pairs)	755	605	436	196	88	17	25
Stockings and socks (thousand pairs)	8,822	12,601	7,489	5,429	4,146	784	1
Washing machines (thousand)	4	3	2	0	0	0	0
Light bulbs (millions)	138	157	180	200	213	66	58

Source: National Statistical Committee.

Table 30. Kyrgyz Republic: Agricultural Production, 1995-99

	1995	1996	1997	1998	1999
(In thousand of tons, except when otherwise noted)					
Grains	913.3	1,329.3	1,618.9	1,619.0	1,629.9
Wheat	625.0	964.1	1,273.7	1,203.7	1,109.1
Barley	158.9	166.4	151.6	161.7	179.9
Corn	116.1	182.2	170.6	227.9	308.4
Rice	6.7	9.2	11.7	11.0	15.1
Cotton	74.5	73.1	62.4	77.8	86.9
Sugarbeet	107.4	189.8	205.5	429.2	536.1
Tobacco	17.6	17.9	25.7	28.1	29.8
Vegetable oil crop	20.1	34.9	37.8	43.8	57.9
Potatoes	431.6	562.4	678.0	773.5	957.2
Vegetables	318.4	368.5	478.7	555.9	719.3
Melons	23.3	40.5	38.3	46.6	62.8
Fruits and berries	67.3	82.7	110.7	102.6	100.9
Grapes	19.7	14.3	22.8	17.2	18.1
Hay	906.8	955.8	899.4	905.3	907.5
Forage	1,009.6	734.0	602.6	552.6	379.3
Meat (slaughtered)	179.9	185.5	185.9	191.1	195.5
Milk	864.2	885.3	911.5	972.7	1,064.5
Eggs (millions)	146.7	159.6	163.9	175.8	192.6
Wool	14.8	12.2	11.4	11.5	11.7
(Percentage change from previous year)					
Grains	-8.3	45.5	21.8	0.0	0.7
Wheat	10.5	54.3	32.1	-5.5	-7.9
Barley	-44.9	4.7	-8.9	6.7	11.3
Corn	-10.2	56.9	-6.4	33.6	35.3
Rice	71.8	37.3	27.2	-6.0	37.3
Cotton	39.3	-1.9	-14.6	24.7	11.7
Sugarbeet	-5.9	76.7	8.3	108.9	24.9
Tobacco	-51.6	1.7	43.6	9.3	6.0
Vegetable oil crop	41.5	73.6	8.3	15.9	32.2
Potatoes	38.8	30.3	20.6	14.1	23.7
Vegetables	19.9	15.7	29.9	16.1	29.4
Melons	23.3	73.8	-5.4	21.7	34.8
Fruits and berries	-14.9	22.9	33.9	-7.3	-1.7
Grapes	11.9	-27.4	59.4	-24.6	5.2
Hay	5.8	5.4	-5.9	0.7	0.2
Forage	-47.5	-27.3	-17.9	-8.3	-31.4
Meat (slaughtered)	-8.8	3.1	0.2	2.8	2.3
Milk	-0.8	2.4	3.0	6.7	9.4
Eggs	-27.2	8.8	2.7	7.3	9.6
Wool	-30.2	-17.6	-6.6	0.9	1.7

Source: National Statistical Committee.

Table 31. Kyrgyz Republic: Agricultural and Animal Production by Farm Type, 1995-99
(In thousands of tons)

	1995				1996 2/				1997				1998				1999			
	State 1/	Farmers	Households	Total	State 1/	Farmers	Households	Total	State 1/	Farmers	Households	Total	State	Farmers	Households	Total	State	Farmers	Households	Total
Agricultural production																				
Grains	569.9	243.6	99.8	913.3	654.5	530.8	143.9	1,329.2	673.9	778.3	166.7	1,618.9	576.4	856.3	186.3	1,619.0	516.5	908.5	204.9	1,629.9
Wheat	426.4	164.0	34.6	625.0	526.6	386.2	51.3	964.1	560.6	647.4	65.7	1,273.7	454.6	675.5	73.5	1,203.6	395.1	640.0	74.0	1,109.1
Barley	107.0	46.6	5.3	158.9	89.0	69.6	7.8	166.4	84.3	60.4	6.9	151.6	83.9	71.6	6.2	161.7	73.1	100.2	6.6	179.9
Corn	28.4	29.9	57.7	116.0	32.6	68.2	81.4	182.2	22.6	58.6	89.4	170.6	30.5	95.9	101.5	227.9	40.5	148.8	119.1	308.4
Rice	3.0	2.2	1.5	6.7	2.1	4.9	2.2	9.2	2.5	6.9	2.3	11.7	3.1	5.4	2.5	11.0	3.0	9.6	2.5	15.1
Cotton	54.3	20.3	...	74.6	38.3	34.7	0.0	73.0	31.3	31.1		62.4	28.4	49.4	0.0	77.8	19.8	67.0	0.1	86.9
Sugarbeet	77.6	29.2	0.6	107.4	136.6	53.2		189.8	124.2	73.7	7.6	205.5	182.1	227.1	20.1	429.3	141.0	362.2	32.9	536.1
Tobacco	9.0	8.4	0.2	17.6	7.1	9.8	1.0	17.9	8.2	14.3	3.2	25.7	7.7	16.8	3.6	28.1	5.5	19.2	5.1	29.8
Vegetable oil crop	10.1	8.4	1.6	20.1	11.9	16.4	6.6	34.9	9.0	21.2	7.6	37.8	10.1	26.3	7.4	43.8	12.5	35.8	9.6	57.9
Potatoes	39.7	27.5	364.4	431.6	40.3	71.5	450.6	562.4	84.6	127.7	465.6	677.9	84.2	173.1	516.2	773.5	123.8	212.7	620.7	957.2
Vegetables	62.6	42.0	213.9	318.5	67.4	72.4	228.7	368.5	61.6	119.9	297.2	478.7	65.8	165.5	324.6	555.9	98.7	271.1	349.5	719.3
Melons	9.0	11.1	3.1	23.2	13.9	21.7	5.0	40.6	12.2	20.4	5.7	38.3	15.4	25.2	6.0	46.6	17.8	35.9	9.1	62.8
Fruits and berries	13.2	1.7	52.4	67.3	19.0	8.0	55.7	82.7	20.9	13.9	75.9	110.7	13.9	10.9	77.8	102.6	15.0	13.0	72.8	100.8
Grapes	13.2	0.9	5.7	19.8	6.5	1.4	6.4	14.3	10.4	1.8	10.5	22.7	2.2	0.8	14.2	17.2	3.0	2.4	12.7	18.1
Hay	377.3	333.8	195.6	906.7	321.0	515.6	119.2	955.8	259.6	525.2	114.6	899.4	216.7	568.8	119.7	905.2	194.3	618.8	94.4	907.5
Forage	993.4	5.4	10.7	1,009.5	698.3	10.7	25.0	734.0	559.6	21.3	21.6	602.6	515.5	28.5	8.6	552.6	360.7	12.9	5.7	379.3
Animal production																				
Beef	14.8	8.4	61.5	84.7	8.5	18.3	59.5	86.3	4.0	18.7	72.4	95.1	4.4	24.5	65.7	94.6	3.8	29.9	61.7	95.4
Pork	1.7	0.2	26.0	27.9	1.2	0.5	27.0	28.7	0.5	0.5	24.6	25.6	0.5	0.7	29.2	30.4	0.4	0.8	31.1	32.3
Sheep	7.4	9.4	37.3	54.1	3.4	13.1	37.7	54.2	1.2	12.6	29.9	43.7	0.8	13.2	30.0	44.0	0.7	16.1	26.4	43.2
Chicken	0.2	0.1	2.4	2.7	0.1	0.2	2.7	3.0	0.1	0.2	2.8	3.1	0.2	0.4	3.4	4.0	0.2	0.6	3.6	4.4
Horse	2.0	3.8	4.4	10.2	1.4	5.9	5.8	13.1	0.8	6.3	11.1	18.2	0.7	8.6	8.6	17.9	0.6	10.5	8.9	20.0
Milk	110.4	101.4	652.4	864.2	63.1	170.2	652.0	885.3	61.5	199.3	650.7	911.5	55.5	249.9	667.3	972.7	47.4	349.8	667.3	1,064.5
Eggs (millions)	6.9	6.9	132.9	146.7	1.3	17.4	140.9	159.6	2.1	22.0	139.8	163.9	4.0	30.1	141.7	175.8	6.1	44.2	142.3	192.6
Wool	2.8	2.5	9.5	14.8	1.2	3.5	7.6	12.3	0.6	3.0	7.8	11.4	0.4	3.2	7.9	11.5	0.3	4.3	7.1	11.7

Source: National Statistical Committee.

1/ State includes collective farms.

Table 32. Kyrgyz Republic: Yields of Major Commodities, 1995-99
(100 Kilogram per hectare)

	1995	1996	1997	1998	1999
Grains	18.1	22.7	24.2	26.0	26.2
Wheat	18.3	22.2	23.7	24.6	24.3
Barley	13.0	16.7	18.8	21.6	19.7
Corn	37.4	43.2	45.9	49.2	53.0
Rice	15.5	17.5	19.3	22.0	24.5
Cotton	22.4	23.1	25.1	24.6	25.1
Sugarbeet	123.1	152.1	180.7	199.7	203.3
Tobacco	20.8	21.1	21.3	22.4	24.5
Vegetable oil	4.6	5.3	6.9	7.9	8.7
Potatoes	99.0	114.0	121.0	131.0	150.0
Vegetables	103.0	113.0	132.0	143.0	152.0
Melons	65.0	83.0	121.0	123.0	150.0
Fruits and berries	20.9	24.1	27.1	25.4	23.9
Grapes	29.6	22.4	31.3	23.0	24.1
Hay	42.6	45.3	49.1	54.0	48.0
Forage	139.3	150.8	174.6	196.0	170.8

Source: National Statistical Committee.

Table 33. Kyrgyz Republic: Consumer and Producer Prices, 1995-2000 2/ 3/

	Consumer Price Index		Producer Price Index	
	Percent change	Index (1994=100)	Percent change	Index (1994=100)
1995 Average 1/	43.5	143.5	-14.6	85.4
1996 Average 1/	31.9	189.2	9.0	93.0
1997 Average 1/	23.5	233.6	-12.6	81.3
1998 January	1.9	240.9	-3.3	78.1
February	0.7	242.5	1.4	99.2
March	0.9	244.7	2.2	80.9
April	0.7	246.4	1.3	81.9
May	2.8	253.3	1.6	83.2
June	2.5	259.7	0.8	83.9
July	-2.9	252.1	-0.4	83.5
August	-1.5	248.4	-0.5	83.1
September	1.1	251.1	3.2	85.8
October	0.7	252.8	3.4	88.7
November	5.4	266.5	6.6	94.6
December	3.4	275.6	5.1	99.5
Average 1/	8.2	252.8	4.8	84.2
1999 January	3.3	284.7	3.8	83.4
February	1.7	289.5	0.2	83.4
March	2.7	297.3	7.9	86.2
April	5.5	313.7	7.3	94.8
May	7.9	338.4	2.7	97.6
June	7.9	365.2	7.0	99.4
July	-0.1	364.8	-3.7	96.6
August	-1.3	360.1	2.5	98.7
September	1.3	364.8	2.8	101.0
October	2.8	375.0	4.2	110.2
November	1.2	379.5	0.1	110.6
December	1.5	385.2	2.4	111.0
Average 1/	35.7	343.2	14.9	97.7
2000 January	1.9	392.5	1.9	82.0
February	1.1	396.8	2.6	82.8
March	1.4	402.4	3.5	84.7
April	0.4	404.0	7.1	90.7
May	1.4	409.5	0.0	90.7
June	0.7	412.4	-2.6	88.3

Sources: National Statistical Committee; and Fund staff estimates.

1/ Year-on-year averages.

2/ Consumer price index composed according to international standards.

3/ National Statistical Committee introduced new methodology. The data have been revised using 1998 consumption basket weights.

Table 34. Kyrgyz Republic: Energy Prices, 1995-2000
(Soms)

	1995	1996	1997	1998	1999	2000	
						QI	QII
Crude Oil (ton)	644.6	813.6	690.8	1,002.0	1,540.3	1,513.3	2,329.4
Natural Gas (1000M ³)	804.8	837.6	865.4	655.8	1,185.7	1,436.2	1,378.6
Electricity (1000Kwh)	92.1	131.8	188.0	214.3	309.5	348.2	557.6
Coal (ton)	160.9	183.0	225.4	284.8	344.2	373.8	368.9
Gasoline (ton)	...	...	...	4,427.5	7,046.7	9,646.7	9,865.7
Diesel (ton)	...	...	...	2,815.8	4,104.2	4,743.3	6,496.7
Mazut (ton)	...	...	...	1,204.9	1,717.9	1,896.7	2,103.3

Source: National Statistical Committee.

Table 35. Kyrgyz Republic: Nominal and Real Wages, 1995-2000

	Nominal wages (som) 1/		Index of real wages (1994=100)	
	Average	Minimum	Average	Minimum
1995 Average 2/	390.3	69.2	117.4	82.9
Average 3/	368.2	...	110.0	...
1996 Average 2/	493.7	75.0	112.8	68.1
Average 3/	490.9	...	111.1	...
1997 Average 2/	630.4	82.5	116.4	60.7
Average 3/	680.2	...	124.7	...
1998 January	665.1	100.0	116.8	70.0
February	700.1	100.0	122.1	69.4
March	746.2	100.0	128.9	68.8
April	744.2	100.0	127.7	68.3
May	749.7	100.0	125.1	66.5
June	799.7	100.0	130.2	64.8
July	822.0	100.0	137.7	66.7
August	799.5	100.0	136.0	67.7
September	791.3	100.0	133.1	67.0
October	815.2	100.0	135.6	66.5
November	811.0	100.0	129.2	63.1
December	978.1	100.0	150.0	61.0
Average 2/	785.2	100.0	131.0	66.6
Average 3/	840.6	100.0	139.6	66.6
1999 January	799.8	100.0	118.6	59.1
February	832.5	100.0	121.4	58.1
March	896.2	100.0	127.3	56.6
April	870.1	100.0	117.1	53.6
May	901.6	100.0	112.5	49.7
June	982.5	100.0	113.6	46.0
July	999.0	100.0	115.6	46.1
August	993.0	100.0	116.4	46.7
September	1,015.0	100.0	117.4	46.1
October	997.8	100.0	112.3	44.8
November	1,038.4	100.0	115.5	44.3
December	1,305.1	100.0	143.0	43.6
Average 2/	976.3	100.0	120.1	49.0
Average 3/	1,049.9	100.0	128.2	49.0
2000 January	977.6	100.0	105.1	42.8
February	1,015.1	100.0	107.9	42.4
March	1,062.8	100.0	111.4	41.7
April	1,036.1	100.0	108.2	41.6
May	1,070.6	100.0	110.3	41.0

Source: National Statistical Committee.

1/ The December average wage reflects year-end bonus, typically one month's wage.

2/ Based on the monthly wage statistics.

3/ Based on annual wage statistics with a broader coverage of the sectors than the monthly statistics, especially with respect to agriculture.

Table 36. Kyrgyz Republic: Average Wages by Economic Sector, 1995-2000
(As a percent of total average wage)

	1995	1996	1997	1998	1999	2000	
						QI	QII
Average wage	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Industry	155.2	150.3	173.8	168.8	161.8	168.2	162.1
Agriculture and forestry	41.3	51.6	54.2	48.8	59.5	58.9	61.8
Transport and communication	129.6	123.9	119.9	126.4	138.2	154.8	155.1
Construction	158.5	158.6	140.6	138.9	162.5	153.3	157.2
Services	91.5	85.6	78.9	81.2	77.4	76.8	76.8
Memorandum items:							
Minimum monthly wage	18.8	15.3	12.1	11.9	10.2	9.8	9.7
Average pension, year end	53.5	50.3	45.1	44.9	39.4	...	...

Source: National Statistical Committee.

Table 37. Kyrgyz Republic: Labor Market, 1995-2000

	1995	1996	1997	1998	1999	2000 Q1
(In thousands)						
Labor force						
Number of persons in the labor force	1,741.7	1,791.5	1,792.3	1,811.3	1,854.8	...
Working age population	2,385.1	2,422.5	2,456.8	2,494.1	2,542.1	2,585.3
Employment						
Number of employed persons	1,641.7	1,651.5	1,689.3	1,704.9	1,718.0	...
Of which						
Forced leave or part-time 1/	...	...	68.9	58.5	52.3	54.9
Private sector employment	1,125.0	1,196.8	1,252.7	1,300.0	1,327.5	...
Public sector employment	516.7	454.7	436.6	404.9	390.5	...
Unemployment						
Number of unemployed persons	50.4	77.2	54.6	55.9	54.7	58.5
Of which						
Unemployment insurance beneficiaries	28.9	25.2	20.3	19.7	5.4	5.3
Total unemployment 2/	100.0	140.0	103.0	106.4	136.8	...
(In percent)						
Official unemployment rate 3/	2.9	4.3	3.0	3.1	2.9	3.2
Actual unemployment rate 4/	5.7	7.8	5.7	5.9	7.4	...
Labor force participation rate 5/	73.0	74.0	73.0	72.6	73.0	...
Employment rate 6/	68.8	68.2	68.8	68.4	67.6	...

Source: National Statistical Committee.

1/ Includes those employees on forced vacation on the instruction of their employers and those engaged in part-time employment.

2/ Defined as the labor force less total employment.

3/ Ratio of number of officially unemployed to the labor force.

4/ Ratio of total unemployment to the labor force.

5/ Ratio of labor force to working age population.

6/ Total employment as a percentage of the working age population.

Table 38. Kyrgyz Republic: Employment by Sector, 1995-99

	1995	1996	1997	1998	1999
(In thousands of workers)					
Total employment	1,641.7	1,651.5	1,689.3	1,704.9	1,718.0
Industry	205.0	182.8	171.6	167.9	158.0
Construction	65.7	57.9	57.0	50.7	41.9
Agriculture and forestry	776.4	778.6	815.6	837.1	885.9
Transport and communication	76.4	81.2	79.2	75.3	66.0
Services	518.2	551.0	565.9	573.9	566.2
(As percent of total employment)					
Industry	12.5	11.1	10.2	9.8	9.2
Construction	4.0	3.5	3.4	3.0	2.4
Agriculture and forestry	47.3	47.1	48.3	49.1	51.6
Transport and communication	4.7	4.9	4.7	4.4	3.8
Services	31.6	33.4	33.5	33.7	33.0

Source: National Statistical Committee.

Table 39. Kyrgyz Republic: Balance of Payments 1995-2000
(In millions of U.S. dollars)

	1995	1996	1997	1998	1999 Prel. est.	2000 Q1
Current account balance 1/	-242.2	-424.7	-139.1	-322.9	-200.5	-20.3
Trade balance	-179.0	-251.7	-15.3	-170.7	-84.4	-15.0
Exports, fob	409.0	531.1	630.8	585.1	462.6	99.4
CIS countries	269.3	393.9	346.2	302.0	191.5	33.5
Energy	45.5	78.0	86.5	28.3	53.1	2.8
Other	223.8	315.9	259.8	273.8	138.4	30.8
Other countries	139.7	137.2	284.5	283.1	271.0	65.8
Of which: Gold (Kumtor)	0.0	0.0	184.0	195.8	183.1	41.0
Imports, fob	588.0	782.8	646.1	755.7	546.9	114.4
CIS countries	346.4	431.1	396.0	391.7	244.5	57.7
Energy	180.6	207.7	177.5	173.8	109.0	24.7
Other	165.8	223.4	218.6	217.8	135.6	33.0
Other countries	241.6	351.7	250.1	364.1	302.4	56.6
Of which: Gold (Kumtor)	44.4	77.1	25.0	24.2	45.2	10.7
Services (net)	-141.8	-256.2	-191.4	-193.7	-168.9	-32.5
Non-interest service	-105.8	-217.6	-126.1	-117.6	-93.5	-22.4
Receipts	31.0	35.6	36.4	62.8	64.9	15.6
Payments	-136.8	-253.2	-162.5	-180.4	-158.5	-38.0
Of which: Technical assistance	-45.3	-44.8	-23.3	-19.8	-18.5	-3.8
Interest payments (scheduled)	-28.6	-34.3	-56.8	-65.7	-67.3	-8.3
Other net income	0.0	-4.3	-8.5	-10.4	-8.0	-1.9
Transfers (net)	78.6	83.2	67.6	41.5	52.8	27.2
Official	98.6	80.8	65.4	51.8	73.9	27.8
Private	-20.0	2.4	2.2	-10.4	-21.1	-0.6
Capital account balance	248.5	347.2	258.9	279.3	233.9	25.3
Commercial banks	-3.3	-0.5	0.8	10.0	-5.8	1.7
Medium-and long-term loans, net	200.0	309.7	151.7	115.6	143.7	6.6
Disbursement	272.2	360.2	167.1	168.5	196.6	21.7
Amortization (scheduled)	-72.2	-50.5	-15.4	-53.0	-52.9	-15.1
Foreign direct investment	96.1	46.3	83.0	101.8	44.4	15.5
Other assets (including accounts payable and receivable)	-44.3	-8.3	23.4	51.9	51.6	1.5
Errors and omissions and short-term capital	-86.3	56.9	-74.3	12.6	-13.9	-12.3
Overall balance	-80.0	-20.5	45.5	-31.0	19.5	-7.3
Financing	80.0	20.5	-45.6	31.0	-19.4	7.3
Net international reserves	0.0	1.5	-48.1	15.5	-41.7	7.3
Gross official reserves (- increase)	0.3	-18.1	-82.6	12.8	-61.2	4.0
IMF (net)	46.6	19.6	34.4	2.7	19.5	3.3
Purchases and disbursements	46.6	23.5	43.9	14.2	26.8	6.4
Repurchases and repayments	0.0	-3.9	-9.5	-11.6	-7.3	-3.1
Exceptional financing (including arrears)	32.9	19.0	2.6	15.5	22.3	0.0
Financing gap (-) (after fiscal measures)	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:						
GDP (in millions of U.S. dollars)	0.0	1,826.7	1,767.3	1,629.4	1,232.0	217.6
Growth of exports of goods and non-factor services	18.1	28.8	17.7	-2.9	-18.6	-13.0
Growth of exports of goods, excluding gold	0.0	0.0	0.0	-12.9	-28.2	-16.7
Growth of imports of goods and non-factor services	45.3	42.9	-21.9	15.8	-24.6	-6.7
External public debt 2/	584.7	732.6	956.6	1,177.3	1,373.5	...
In percent of GDP	36.4	40.1	54.1	72.3	111.5	...
Debt service ratio 2/	19.5	0.0	0.0	7.8	5.1	...
External public debt/GDP (in net present value terms) 2/	0.0	32.9	40.7	50.7	65.1	...
External public debt/exports (in net present value terms) 2/ 3/	0.0	96.7	114.6	131.8	130.6	...
Gross reserves 4/	114.5	110.4	141.8	130.4	183.5	180.3
In months of the subsequent year's imports cover	1.3	1.6	1.8	2.2	3.2	...
In percent of short term debt by remaining maturity	112.0	137.2	312.4	157.2	222.1	...
Current account balance (in percent of GDP)	16.2	-23.2	-7.9	-20.2	-16.3	-9.3

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

1/ Including transfers.

2/ Public- and publicly-guaranteed debt service; excluding Kumtor related debt.

3/ Based on three-year average exports of goods and non-factor services.

4/ Valued at end-year exchange rates. Gross reserves exclude NBKR pledges to secure government-guaranteed loans and blocked deposits.

Table 40. Kyrgyz Republic: Exports of Goods by Sector, 1995-2000

	1995	1996	1997	1998	1999	2000 Q1
(In millions of U.S. dollars)						
Total exports 1/	409.0	531.2	603.9	513.7	453.8	97.8
Industry	366.1	468.0	558.7	461.1	396.9	81.8
Electric energy	41.0	73.6	83.2	25.6	52.0	2.5
Oil and gas industry	1.5	2.8	2.4	2.9	1.4	0.3
Coal industry	3.1	2.0	1.8	0.5	0.2	0.0
Ferrous metallurgy	10.4	6.9	3.0	2.9	1.6	0.7
Nonferrous metallurgy	62.7	81.9	216.2	221.0	217.2	51.4
Chemical and petrochemical	20.3	16.2	16.5	10.5	8.4	2.3
Machine building	44.5	56.2	61.6	70.1	46.8	8.1
Lumber and paper	1.8	2.4	3.6	4.6	0.7	0.2
Industrial construction materials	11.6	21.8	26.9	24.0	8.2	1.7
Light industry	82.6	74.4	60.7	40.8	32.3	11.1
Food industry	82.8	127.0	79.6	54.5	19.1	3.2
Other industry	3.8	2.8	3.2	3.7	8.9	0.3
Agriculture	42.9	63.2	45.2	52.5	56.8	16.0
Other	0.0	0.0	0.0	0.0	0.2	0.0
(In percent of total)						
Total exports	100.0	100.0	100.0	100.0	100.0	100.0
Industry	89.5	88.1	92.5	89.8	87.4	83.6
Electric energy	10.0	13.9	13.8	5.0	11.5	2.6
Oil and gas industry	0.4	0.5	0.4	0.6	0.3	0.4
Coal industry	0.8	0.4	0.3	0.1	0.0	0.0
Ferrous metallurgy	2.5	1.3	0.5	0.6	0.3	0.7
Nonferrous metallurgy	15.3	15.4	35.8	43.0	47.9	52.5
Chemical and petrochemical	5.0	3.0	2.7	2.0	1.9	2.4
Machine building	10.9	10.6	10.2	13.6	10.3	8.3
Lumber and paper	0.4	0.5	0.6	0.9	0.2	0.2
Industrial construction materials	2.8	4.1	4.5	4.7	1.8	1.7
Light industry	20.2	14.0	10.1	7.9	7.1	11.4
Food industry	20.2	23.9	13.2	10.6	4.2	3.3
Other industry	0.9	0.5	0.5	0.7	2.0	0.3
Agriculture	10.5	11.9	7.5	10.2	12.5	16.4
Other	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Kyrgyz authorities; and Fund staff estimates.

1/ Data for 1997 and 1998 do not include estimates of unrecorded exports to other CIS countries. Data may differ from Table 38 due to incomplete coverage.

Table 41. Kyrgyz Republic: Imports of Goods by Sector, 1995-2000

	1995	1996	1997	1998	1999	2000 Q1
(In millions of U.S. dollars)						
Total imports (c.i.f.) 1/	522.5	837.5	709.3	841.5	599.7	123.6
Industry	505.5	809.8	674.7	822.9	568.3	107.9
Electric energy	8.6	26.7	23.8	7.9	2.8	0.0
Oil and gas industry	162.6	187.6	175.9	181.5	99.1	26.0
Coal industry	17.0	25.1	7.0	17.5	19.6	2.1
Ferrous metallurgy	17.8	15.0	9.9	21.6	9.5	1.8
Nonferrous metallurgy	11.2	8.7	22.4	30.6	22.9	1.3
Chemical and petrochemical	30.1	87.4	96.1	103.4	81.0	22.7
Machine building	103.6	230.5	154.0	219.3	202.4	30.5
Lumber and paper	19.8	26.2	29.2	35.3	19.1	4.4
Industrial construction materials	10.1	15.8	13.3	16.0	11.0	0.9
Light industry	23.2	16.6	48.4	60.3	38.6	7.9
Food industry	96.7	162.0	83.3	106.6	54.2	8.9
Other industry	4.8	8.2	11.4	22.9	7.9	1.4
Agriculture	17.0	27.7	34.6	18.6	31.4	15.7
Other	0.0	0.0	0.0	0.0	0.0	0.0
(In percent of total)						
Total imports	100.0	100.0	100.0	100.0	100.0	100.0
Industry	96.7	96.7	95.1	97.8	94.8	87.3
Electric energy	1.6	3.2	3.4	0.9	0.5	0.0
Oil and gas industry	31.1	22.4	24.8	21.6	16.5	21.0
Coal industry	3.3	3.0	1.0	2.1	3.3	1.7
Ferrous metallurgy	3.4	1.8	1.4	2.6	1.6	1.4
Nonferrous metallurgy	2.1	1.0	3.2	3.6	3.8	1.0
Chemical and petrochemical	5.8	10.4	13.5	12.3	13.5	18.4
Machine building	19.8	27.5	21.7	26.1	33.8	24.7
Lumber and paper	3.8	3.1	4.1	4.2	3.2	3.5
Industrial construction materials	1.9	1.9	1.9	1.9	1.8	0.8
Light industry	4.4	2.0	6.8	7.2	6.4	6.4
Food industry	18.5	19.3	11.7	12.7	9.0	7.2
Other industry	0.9	1.0	1.6	2.7	1.3	1.1
Agriculture	3.3	3.3	4.9	2.2	5.2	12.7
Other	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Kyrgyz authorities; and Fund staff estimates.

1/ Import data for 1995 does not incorporate estimates of unrecorded imports. Data may differ from those in Table 38 due to incomplete coverage.

Table 42. Kyrgyz Republic: Exports of Goods to CIS and Non-CIS Countries, 1995-2000
(In millions of U.S. dollars)

	1995	1996	1997	1998	1999	2000 Q1
Total exports	409.1	531.4	603.8	513.4	453.9	97.8
Exports to CIS countries 1/	269.4	393.9	319.2	230.6	183.3	32.5
Industry	231.2	333.5	285.7	187.8	135.6	19.2
Electric energy	41.0	73.5	83.2	25.6	52.0	2.5
Oil and gas industry	1.5	1.6	1.5	2.2	0.9	0.2
Coal industry	3.1	3.5	1.8	0.5	0.2	0.0
Ferrous metallurgy	3.0	3.8	1.3	1.7	0.3	0.0
Nonferrous metallurgy	11.9	24.4	10.4	6.6	2.5	0.3
Chemical and petrochemical	9.1	14.9	11.1	7.1	6.4	1.2
Machine building	39.5	47.3	49.8	53.7	33.5	6.0
Lumber and paper	1.3	1.7	2.8	4.0	0.5	0.1
Industrial construction materials	11.4	11.8	26.7	24.0	8.1	1.7
Light industry	28.2	38.5	22.7	14.8	14.0	5.1
Food industry	77.9	108.1	72.1	45.3	15.6	1.7
Other industry	3.3	4.4	2.3	2.3	1.6	0.2
Agriculture	38.2	60.4	33.5	42.9	47.5	13.4
Other	0.0	0.0	0.0	0.0	0.2	0.0
Exports to non-CIS countries	139.7	137.5	284.6	282.7	270.5	65.3
Industry	135.0	121.9	272.9	273.0	261.2	62.7
Ferrous metallurgy	7.4	2.4	1.7	1.2	1.3	0.7
Nonferrous metallurgy	50.7	59.3	205.9	214.4	214.8	51.1
Chemical and petrochemical	11.2	6.1	5.4	3.4	2.0	1.1
Machine building	5.0	7.6	11.8	16.4	13.3	2.0
Lumber and paper	0.6	0.2	0.7	0.6	0.3	0.0
Industrial construction materials	0.2	0.3	0.2	0.0	0.1	0.0
Light industry	54.4	36.1	38.0	26.0	18.4	6.0
Food industry	4.9	9.4	7.5	9.2	3.5	1.6
Other industry	0.6	0.5	1.7	1.4	7.2	0.1
Agriculture	4.7	15.6	11.7	9.7	9.3	2.6
Other	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:						
Exports associated with "shuttle trade"	0.0	0.0	58.4	42.2	21.9	3.7
Included in official statistics	0.0	0.0	31.4	20.8	13.2	2.2
Estimated (added to official statistics)	0.0	0.0	27.0	21.4	8.7	1.5

Sources: Kyrgyz authorities; and Fund staff estimates.

1/ Data for 1997 and 1998 do not include estimates of unrecorded exports to other CIS countries. Data may differ from those in Table 38 due to incomplete coverage.

Table 43. Kyrgyz Republic: Imports of Goods from CIS and Non-CIS Countries, 1995-2000
(In millions of U.S. dollars)

	1995	1996	1997	1998	1999	2000 Q1
Total imports	522.7	837.6	709.2	841.5	599.7	124.3
Imports from CIS (c.i.f.) 1/	353.8	486.7	435.7	440.7	259.3	61.8
Industry	350.0	473.5	422.9	428.6	248.8	56.0
Electric energy	8.6	26.7	23.8	7.9	2.8	0.0
Oil and gas industry	159.9	183.1	172.7	176.1	96.8	25.3
Coal industry	17.0	25.1	6.9	17.4	19.6	2.1
Ferrous metallurgy	16.3	14.3	9.1	17.0	6.0	1.6
Nonferrous metallurgy	10.1	7.1	16.9	25.7	12.8	0.7
Chemical and petrochemical	22.8	47.3	47.6	52.9	22.6	8.0
Machine building	46.6	69.3	58.0	56.9	39.4	8.8
Lumber and paper	15.8	18.6	18.8	21.2	10.0	2.8
Industrial construction materials	8.2	10.9	10.6	11.5	7.6	0.6
Light industry	16.0	10.7	11.7	5.6	3.0	0.3
Food industry	25.2	57.3	41.9	21.2	25.6	5.2
Other industry	3.5	3.1	4.9	15.2	2.6	0.6
Agriculture	3.8	13.2	12.8	12.0	10.5	5.8
Other	0.0	0.0	0.0	0.0	0.0	0.0
Imports from non-CIS (c.i.f.) 1/	168.9	350.9	273.5	400.8	340.5	62.4
Industry	155.6	336.4	251.7	394.2	319.5	51.7
Electric energy	0.0	0.0	0.0	0.0	0.0	0.0
Oil and gas industry	2.6	4.5	3.2	5.4	2.3	0.7
Coal industry	0.0	0.0	0.1	0.0	0.0	0.0
Ferrous metallurgy	1.5	0.7	0.8	4.6	3.5	0.1
Nonferrous metallurgy	1.1	1.6	5.5	4.9	10.1	0.6
Chemical and petrochemical	7.3	40.1	48.5	50.5	58.4	14.7
Machine building	57.0	161.2	96.0	162.4	163.0	21.7
Lumber and paper	4.0	7.6	10.4	14.1	9.1	1.7
Industrial construction materials	1.9	5.0	2.7	4.5	3.4	0.3
Light industry	7.2	5.9	36.6	54.7	35.7	7.6
Food industry	71.6	104.7	41.4	85.4	28.7	3.6
Other industry	1.4	5.1	6.5	7.7	5.4	0.8
Agriculture	13.3	14.5	21.8	6.6	21.0	10.7
Other	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:						
Imports associated with "shuttle trade"	36.6	54.2	82.4	100.5	58.3	13.6
Included in official statistics	0.0	0.0	59.4	72.7	44.8	10.6
Estimated (added to official statistics)	36.6	54.2	23.0	27.8	13.5	3.0

Sources: Kyrgyz authorities; and Fund staff estimates.

1/ Import data for 1994 and 1995 do not incorporate estimates of unrecorded imports. Data may differ from those in Table 38 due to incomplete coverage.

Table 44. Kyrgyz Republic: Direction of Trade, 1995-2000
(In millions of U.S. dollars)

	1995	1996	1997	1998	1999	2000 Q1
Exports						
Total non-CIS	141.5	137.2	284.6	283.1	270.5	65.3
China	68.5	36.4	31.6	15.7	25.3	8.4
United Kingdom	27.4	5.3	1.4	1.6	12.4	1.5
United States	4.0	17.6	17.9	7.6	11.2	0.3
France	3.6	1.8	0.3	7.0	8.2	0.0
Turkey	3.2	5.3	8.0	7.4	4.6	1.1
Italy	2.9	2.5	2.6	2.6	0.3	0.0
Germany	2.1	28.1	18.1	192.2	148.2	24.8
Poland	1.3	0.5	1.5	1.0	0.5	0.7
Switzerland	1.8	0.9	162.3	1.1	18.1	17.8
Other	26.7	38.8	40.9	47.0	41.7	10.7
Total CIS 1/	269.2	393.6	319.4	230.6	183.3	32.6
Armenia	0.0	0.0	0.0	0.0	0.1	0.0
Azerbaijan	2.1	3.2	2.8	2.6	1.5	0.6
Belarus	5.0	5.6	8.6	5.3	5.0	1.1
Georgia	0.7	0.1	0.6	0.5	0.4	0.1
Kazakhstan	66.8	112.5	87.1	85.5	45.0	5.2
Moldova	1.0	0.8	0.0	0.2	0.5	0.0
Russia	104.8	134.6	98.9	83.7	70.7	20.1
Tajikistan	8.3	8.4	12.7	8.3	9.5	1.1
Turkmenistan	2.2	3.2	2.6	1.2	2.8	0.8
Ukraine	8.3	9.4	4.6	4.7	1.5	0.2
Uzbekistan	70.0	115.8	101.5	38.5	46.6	3.4
Total exports	410.7	530.8	604.0	513.6	453.8	97.9
Imports 2/						
Total non-CIS	168.8	350.8	273.5	400.8	340.5	61.7
Turkey	38.3	47.6	43.7	37.4	23.1	3.4
Cuba	22.7	22.1	0.0	12.1	4.1	0.0
United States	19.1	35.7	39.6	40.9	54.2	19.8
Germany	18.7	31.8	38.4	53.1	47.3	4.5
Japan	7.2	12.5	2.7	4.3	12.0	6.1
China	6.3	7.8	32.5	44.4	36.9	5.9
Canada	5.9	42.5	5.2	14.4	25.4	1.9
Other	50.6	150.8	111.4	194.3	137.4	20.1
Total CIS 1/	353.4	487.0	435.9	440.7	259.3	62.0
Armenia	0.6	0.0	0.3	0.4	0.0	0.0
Azerbaijan	3.3	1.4	2.5	7.2	3.4	0.6
Belarus	5.0	6.1	10.3	9.6	5.3	0.9
Georgia	0.3	1.6	3.1	0.3	0.2	0.1
Kazakhstan	112.5	139.5	69.6	75.3	72.7	15.4
Moldova	0.2	0.2	0.4	0.0	0.2	0.0
Russia	114.3	174.5	190.8	204.1	109.4	26.0
Tajikistan	4.8	6.3	10.0	6.4	4.0	0.1
Turkmenistan	18.6	13.6	15.5	8.2	7.8	4.6
Ukraine	4.9	12.3	4.8	6.9	6.3	2.2
Uzbekistan	88.9	131.5	128.6	122.2	50.0	12.2
Other	14.2	15.6	26.6	23.9	13.1	...
Total imports	522.2	837.8	709.4	841.5	599.7	123.7

Source: Data provided by the Kyrgyz authorities.

1/ Data for 1997 and 1998 do not include estimates of unrecorded exports to other CIS countries.

2/ Import data for 1995 do not incorporate estimate of unrecorded imports. Data may differ from those in Table 38 due to incomplete coverage.

Table 45. Kyrgyz Republic: Production, Imports and Exports of Energy Products, 1995-2000

	1995	1996	1997	1998	1999	2000 Q1
1. Natural gas (million m3)						
Domestic production	35.7	25.9	23.7	17.9	25.0	6.6
Imports	846.6	1,027.3	982.3	1,001.9	576.4	174.0
Exports	0.0	0.0	0.0	0.0	0.0	0.2
2. Liquefied gas (thousand tons)						
Domestic production	0.0	0.0	0.0	0.0	0.0	0.0
Imports	9.5	16.4	13.5	0.2	8.8	2.2
Exports	0.0	0.0	0.0	0.0	0.0	0.0
3. Coal (thousand tons)						
Domestic production	413.0	410.0	538.0	432.4	415.2	79.8
Imports	499.7	844.5	290.5	806.4	1,075.3	129.4
Exports	170.6	100.4	78.0	23.0	10.8	7.3
4. Petroleum products (thousand tons)						
Domestic production						
Crude petroleum	88.5	84.0	84.7	77.1	76.9	18.3
Gasoline	0.0	2.8	47.8	53.1	70.4	6.9
Kerosene	0.0	0.0	0.0	0.0	0.0	0.0
Mazut	0.0	4.3	37.6	41.1	47.9	...
Diesel fuel	0.0	5.3	26.3	35.6	46.1	6.9
Imports						
Crude petroleum	3.0	12.1	70.2	62.4	64.8	3.6
Gasoline	211.8	174.4	125.6	231.7	158.5	19.9
Kerosene	62.2	75.0	41.3	57.2	42.2	11.9
Mazut	92.0	165.3	65.5	107.8	36.2	31.7
Diesel fuel	133.1	132.6	94.4	82.0	84.4	15.3
Exports						
Crude petroleum	24.6	21.1	0.0	0.0	0.0	0.0
Gasoline	0.5	0.8	0.3	5.2	0.1	0.0
Kerosene	0.0	0.0	0.0	3.3	3.7	1.0
Mazut	0.0	0.0	0.0	0.0	0.0	0.0
Diesel fuel	0.7	0.1	0.8	1.1	0.5	0.2
5 Electricity (millions of kilowatts per hour)						
Domestic production	12,349.0	13,759.0	12,584.5	11,618.1	13,119.3	4,764.9
Exports	1,622.0	2,880.8	2,417.4	998.4	2,011.2	206.8
Imports	254.4	815.1	714.9	394.3	183.9	0.0

Source: Kyrgyz authorities.

Table 46. Kyrgyz Republic: Net Foreign Direct Investment by Country of Origin, 1995-99
(In millions of U.S. dollars)

	1995	1996	1997	1998	1999
Total direct foreign investment	96.1	46.8	83.0	109.2	35.5
CIS countries	0.3	1.3	2.8	3.3	-1.1
Belarus	0.0	0.0	0.0	0.0	0.0
Kazakhstan	0.0	0.3	1.4	2.2	-0.7
Russia	0.2	0.8	1.2	0.4	-0.7
Ukraine	0.0	0.0	0.0	0.5	0.0
Uzbekistan	0.0	0.2	0.2	0.0	0.0
Non-CIS countries	95.8	45.5	80.3	105.9	36.5
United States	0.0	4.4	6.0	25.0	7.0
Canada	92.5	19.2	31.3	1.3	-4.8
European Union	0.5	3.4	18.4	29.8	26.1
<i>of which:</i>					
Germany	0.2	0.7	4.4	0.5	12.1
United Kingdom	0.0	0.6	10.2	20.7	11.5
Italy	0.0	0.8	3.0	3.0	2.5
Switzerland	2.0	4.3	0.9	2.6	-1.7
Turkey	0.1	10.9	16.2	9.0	12.7
Japan	0.0	0.2	0.5	9.6	0.2
India	0.0	0.0	1.1	-0.5	-1.5
Pakistan	0.0	0.0	0.3	0.3	0.1
Malaysia	0.0	0.1	2.1	1.7	0.1
Others	0.7	2.8	3.6	27.1	-1.7

Source: Kyrgyz authorities.

Table 47. Kyrgyz Republic: External Public Debt and Debt Service, 1995-2000 1/
(In millions of U.S. dollars)

	1995	1996	1997	1998	1999	2000 Q1
Stock, end-of-period						
External public debt						
Debt outstanding	594.1	742.0	966.0	1,133.1	1,373.5	1,409.7
Multilateral	300.9	426.6	599.1	731.1	911.2	938.9
Concessional	234.0	343.3	500.4	630.2	769.1	794.2
IDA	139.6	193.5	255.2	331.1	354.7	361.2
PRGF	60.4	83.4	127.2	139.1	169.7	174.8
Others	34.0	66.4	118.0	160.0	244.7	258.2
Non-concessional	66.9	83.3	98.7	100.9	142.1	144.7
IMF	66.6	57.3	49.2	37.8	30.7	28.9
Others	0.3	26.0	49.5	63.1	111.4	115.8
Bilateral	293.2	315.4	366.9	401.9	462.3	470.8
CIS (non-concessional)	176.9	150.0	187.9	177.3	180.3	180.0
Non-CIS	116.3	165.4	179.0	224.7	282.0	290.8
Concessional	78.9	113.6	117.0	127.1	181.7	189.7
Non-concessional	37.4	51.8	62.0	97.5	100.3	101.1
Flows						
Debt service						
Disbursements	207.7	180.0	210.9	172.8	207.1	39.6
Multilateral	162.7	134.2	180.6	133.3	149.0	30.8
Concessional	162.7	117.4	157.1	124.4	131.0	26.4
IDA	82.4	57.5	61.7	66.7	18.4	6.5
PRGF	46.3	23.5	43.8	14.2	26.7	6.4
Others	34.0	36.4	51.6	43.4	85.9	13.5
Non-concessional	0.0	16.8	23.5	8.9	18.0	4.4
IBRD	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	16.8	23.5	8.9	18.0	4.4
Bilateral	45.0	45.8	30.3	39.5	58.1	8.8
CIS (non-concessional)	0.0	0.0	23.1	6.3	0.0	0.0
Non-CIS	45.0	45.8	7.2	33.2	58.1	8.8
Concessional	37.9	31.2	7.2	22.6	55.3	8.0
Non-concessional	7.1	14.6	0.0	10.6	2.8	0.8
Interest payments	22.2	18.5	20.8	24.9	19.3	1.4
Multilateral	6.4	5.2	6.2	9.6	10.9	0.8
IDA/IBRD	0.6	1.4	1.8	1.9	2.4	0.4
IMF	3.9	3.2	3.1	2.6	2.1	0.3
Others	1.9	0.6	1.3	5.1	6.4	0.1
Bilateral	15.8	13.3	14.6	15.3	8.3	0.5
CIS	13.9	7.5	7.1	5.8	1.0	0.1
Non-CIS	1.9	5.8	7.5	9.5	7.3	0.4
Amortization	37.3	45.5	20.3	27.3	13.7	3.4
Multilateral	0.0	3.9	9.9	16.1	12.9	3.1
IDA/IBRD	0.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	3.9	9.8	11.5	7.4	3.1
Others	0.0	0.0	0.1	4.6	5.5	0.0
Bilateral	37.3	41.6	10.4	11.2	0.7	0.3
CIS	37.3	36.6	4.0	7.5	0.0	0.3
Non-CIS	0.0	5.0	6.4	3.7	0.7	0.0

Sources: Kyrgyz authorities; and Fund staff calculations.

1/ Includes only public and publicly guaranteed debt.

Table 48. Kyrgyz Republic: Summary of State Government Operations, 1995-2000

	1995	1996	1997	1998	1999	2000	
						QI	QII
						Prel.	Prel.
(In million of soms)							
Total revenue and grants	2,703	3,728	4,973	6,149	8,608	1,954	2,204
Total revenue	2,648	3,527	4,778	5,953	7,612	1,755	2,146
Current revenue	2,599	3,233	4,652	5,863	7,464	1,752	2,137
Tax revenue	2,423	2,968	3,847	4,867	5,972	1,457	1,777
Income tax	713	669	685	892	1,151	373	336
VAT	705	1,250	1,733	1,967	2,000	531	663
Customs and excise	432	452	696	1,103	1,572	316	351
Land tax	73	122	278	291	199	27	29
Road tax and Emergency Fund 1/	217	239	319	422	566	151	336
Other 2/	282	236	136	192	485	59	63
Nontax revenue	176	265	805	997	1,491	295	360
Capital revenue	49	293	126	90	148	2	9
Grants	55	201	195	197	996	200	57
Total expenditure (include PIP)	5,358	5,905	7,778	9,843	14,802	2,924	4,277
Current expenditure	4,031	4,907	6,638	7,764	9,887	2,041	3,050
Wages 3/	1,528	1,682	2,065	2,630	2,787	622	1,061
Transfers 4/	1,119	1,098	1,070	1,196	1,238	312	441
Social Fund	91	293	446	344	300	38	69
Interest	68	284	520	715	1,436	277	390
Foreign interest	59	203	278	423	1,203	155	329
Domestic interest (including FINSAC)	9	81	242	292	233	123	61
Other	1,226	1,549	2,538	2,878	4,126	792	1,088
Net lending	556	101	-17	-165	-189	-75	-21
Lending	...	282	524	74	22	0	18
Repayment	...	-182	-541	-238	-210	-75	-39
Capital investment with PIP	771	897	1,157	2,244	5,104	958	1,248
Surplus(+) / deficit (-)	-2,788	-2,232	-2,812	-3,242	-5,817	-915	-1,895
Total financing	2,788	2,232	2,812	3,242	5,817	915	1,895
External financing	1,467	1,620	2,451	3,046	7,084	840	2,060
Public Investment Program (PIP)	610	739	949	1,952	4,578	880	1,071
Disbursements (BOP support)	1,293	885	1,477	1,123	2,560	0	1,057
Turkish loan	143	102	115	0	0	0	0
Total amortization	-579	-188	-169	-254	-168	-514	-337
Arrears and rescheduling	...	82	78	225	114	474	270
Domestic financing	1,321	612	361	197	-1,267	76	-165
NBKR, of which:	1,252	453	117	76	-1,015	89	-375
Direct loans granted	1,002	600	-268	-1,939	0	0	0
Drawdown of budgetary deposits	0	-147	128	-32	-1,076	88	-351
Drawdown of counterpart funds 5/	250	1	-200	78	122	0	0
Commercial banks	70	22	132	39	-247	-15	105
Nonbank	0	22	91	-2	-123	-14	6
Privitization Receipts	0	116	22	84	118	16	98
Memorandum items:							
Fiscal savings	-1,378	-1,473	-1,791	-1,264	-1,778	-89	-855
Arrears (stock at end period) 6/	213	158	290	592	241	190	242
Non-wage education expenditure	0	0	577	647	676	129	202
Non-wage health expenditure	0	0	529	478	540	112	163
GDP	16,146	23,400	30,684	34,181	48,321	60,615	60,615

Table 48. Kyrgyz Republic: Summary of State Government Operations, 1995-2000, (concluded)

	1995	1996	1997	1998	1999	2000	
						QI Prel.	QII Prel.
(In percent of GDP)							
Total revenue and grants	16.7	15.9	16.2	18.0	17.8	3.2	3.6
Total revenue	16.4	15.1	15.6	17.4	15.8	2.9	3.5
Current revenue	16.1	13.8	15.2	17.2	15.4	2.9	3.5
Tax revenue	15.0	12.7	12.5	14.2	12.4	2.4	2.9
Income tax	4.4	2.9	2.2	2.6	2.4	0.6	0.6
VAT	4.4	5.3	5.6	5.8	4.1	0.9	1.1
Customs and excise	2.7	1.9	2.3	3.2	3.3	0.5	0.6
Land tax	0.5	0.5	0.9	0.9	0.4	0.0	0.0
Road tax and Emergency Fund 1/	1.3	1.0	1.0	1.2	1.2	0.2	0.6
Other 2/	1.7	1.0	0.4	0.6	1.0	0.1	0.1
Nontax revenue	1.1	1.1	2.6	2.9	3.1	0.5	0.6
Capital revenue	0.3	1.3	0.4	0.3	0.3	0.0	0.0
Grants	0.3	0.9	0.6	0.6	2.1	0.3	0.1
Total expenditure	33.2	25.2	25.3	28.8	30.6	4.8	7.1
Current expenditure	25.0	21.0	21.6	22.7	20.5	3.4	5.0
Wages 3/	9.5	7.2	6.7	7.7	5.8	1.0	1.8
Transfers 4/	6.9	4.7	3.5	3.5	2.6	0.5	0.7
Social Fund	0.6	1.3	1.5	1.0	0.6	0.1	0.1
Interest (including FINSAC)	0.4	1.2	1.7	2.1	3.0	0.5	0.6
Other	7.6	6.6	8.3	8.4	8.5	1.3	1.8
Net lending	3.4	0.4	-0.1	-0.5	-0.4	-0.1	0.0
Capital investment	4.8	3.8	3.8	6.6	10.6	1.6	2.1
Surplus(+) / deficit (-)	-17.3	-9.5	-9.2	-9.5	-12.0	-1.5	-3.1
Total financing	17.3	9.5	9.2	9.5	12.0	1.5	3.1
External financing	9.1	6.9	8.0	8.9	14.7	1.4	3.4
Domestic financing	8.2	2.6	1.2	0.6	-2.6	0.1	-0.3
Of which: Privatization revenue	0.0	0.0	0.1	0.2	0.2	0.0	0.0
Memorandum items:							
German loan	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Turkish loan	0.0	0.1	0.1	0.1	0.0	0.1	0.1
Arrears (stock at end period) 6/	1.3	0.7	0.9	1.7	0.5	0.3	0.4
Non-wage Education expenditure	0.0	0.0	1.9	1.9	1.4	0.2	0.3
Non-wage Health expenditure	0.0	0.0	1.7	1.4	1.1	0.2	0.3

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

1/ Both turnover taxes.

2/ Includes right-to-trade and other small taxes on forest and water resources.

3/ Includes social contributions.

4/ Includes unemployment compensation benefits, student stipends, military pensions and housing subsidies.

5/ In 1994, drawdown of counterpart funds and deposits are accounted together.

6/ Includes wage, transfers and pension arrears.

Table 49. Kyrgyz Republic: State Government Revenues, 1995-2000

	1995	1996	1997	1998	1999	2000	
						Q1 Prel.	Q1 Prel.
(In millions of soms)							
Total revenue and grants	2,703	3,728	4,973	6,149	8,608	1,954	2,204
Total revenue	2,648	3,527	4,778	5,953	7,612	1,755	2,146
Current revenue	2,599	3,233	4,652	5,863	7,464	1,752	2,137
Tax revenue	2,423	2,968	3,847	4,867	5,972	1,457	1,777
Income tax	713	669	685	892	1,151	373	336
Income tax	284	288	318	405	546	173	177
Profit tax	415	365	350	452	568	191	151
Domestic taxes on goods and services	1,491	2,037	2,910	3,594	4,256	1,033	1,381
VAT	705	1,250	1,733	1,967	2,000	531	663
Retail sales tax 1/	167	114	83	151	187	47	53
Excises	298	246	451	722	1,265	265	291
Right-to-trade	6	27	9	1	1	0	0
Land tax	73	122	278	291	199	27	29
Road tax	77	80	107	133	184	48	190
Emergency Fund	140	159	212	288	383	103	146
Other 2/	24	39	36	40	38	11	10
Customs	134	206	245	381	307	51	61
Other 3/	84	56	8	0	259	0	0
Nontax revenue	176	265	805	997	1,491	295	360
Government fees	69	81	101	119	163	35	49
Special resources	0	71	536	611	599	148	222
Arrears collection	60	28	0	12	0	0	0
Other nontax revenue 4/	47	86	168	254	730	112	89
Capital revenue	49	293	126	90	148	2	9
Grants	55	201	195	197	996	200	57
(In percent of GDP)							
Total revenue and grants	16.7	15.9	16.2	18.0	17.8	21.3	18.4
Tax revenue	15.0	12.7	12.5	14.2	12.4	15.9	14.9
Income taxes	4.4	2.9	2.2	2.6	2.4	4.1	2.8
Income tax	1.8	1.2	1.0	1.2	1.1	1.9	1.5
Profit tax	2.6	1.6	1.1	1.3	1.2	2.1	1.3
Domestic taxes on goods and services, of which:	9.2	8.7	9.5	10.5	8.8	11.2	11.5
VAT	4.4	5.3	5.6	5.8	4.1	5.8	5.5
Retail sales tax 1/	1.0	0.5	0.3	0.4	0.4	0.5	0.4
Excises	1.8	1.1	1.5	2.1	2.6	2.9	2.4
Customs	0.8	0.9	0.8	1.1	0.6	0.6	0.5
Other 2/	0.5	0.2	0.0	0.0	0.5	0.0	0.0
Nontax revenue	1.1	1.1	2.6	2.9	3.1	3.2	3.0
Capital revenue	0.3	1.3	0.4	0.3	0.3	0.0	0.1
Grants	0.3	0.9	0.6	0.6	2.1	2.2	0.5
(In percent of Total revenue)							
Total revenue and grants	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Tax revenue	89.7	79.6	77.4	79.1	69.4	74.6	80.6
Income taxes	26.4	17.9	13.8	14.5	13.4	19.1	15.2
Income tax	10.5	7.7	6.4	6.6	6.3	8.9	8.0
Profit tax	15.3	9.8	7.0	7.4	6.6	9.8	6.8
Domestic taxes on goods and services, of which:	55.2	54.6	58.5	58.5	49.4	52.8	62.7
VAT	26.1	33.5	34.8	32.0	23.2	27.2	30.1
Retail sales tax 1/	6.2	3.1	1.7	2.5	2.2	2.4	2.4
Excises	11.0	6.6	9.1	11.7	14.7	13.5	13.2
Customs	5.0	5.5	4.9	6.2	3.6	2.6	2.8
Other 2/	3.1	1.5	0.2	0.0	3.0	0.0	0.0
Nontax revenue	6.5	7.1	16.2	16.2	17.3	15.1	16.3
Capital revenue	1.8	7.9	2.5	1.5	1.7	0.1	0.4
Grants	2.0	5.4	3.9	3.2	11.6	10.2	2.6
Memorandum item:							
Nominal GDP	16,146	23,400	30,684	34,181	48,321	9,181	11,957

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

1/ Abolished as of January 1997, became a local tax.

2/ Includes Mineral taxes, water fees and forest fees.

3/ Includes social protection tax in 1994, productive property tax.

4/ Includes automobile registration, penalties and sanctions.

Table 50. Kyrgyz Republic: Government Expenditure by Functional Classification, 1995-2000

	1995	1996 1/	1997	1998	1999	2000	
						QI Prel.	QII Prel.
(In millions of soms)							
Total expenditures 3/	4,748	5,166	6,829	7,451	10,575	2,095	2,964
General public services	362	555	835	984	1,267	321	366
Defense	237	291	461	474	808	186	322
Public order and safety affairs	334	404	472	412	459	101	207
Education	1,051	1,228	1,475	1,632	1,892	388	539
Health	590	738	886	990	1,122	238	303
Social security and welfare affairs	899	885	1,059	983	1,198	167	328
Social insurance	796	799	876	758	772	96	164
Social security	104	86	182	225	426	71	164
Housing and community services	183	296	275	375	469	130	187
Recreational, cultural and religious activities	127	126	144	188	293	45	92
Energy complex (electricity production)	1	0	1	146	77	0	12
Agriculture, water resources, forestry	171	195	236	350	361	69	124
Mining and mineral resources	61	59	70	67	98	23	17
Transportation and communication	70	103	176	232	524	79	119
Other economic affairs and services	50	35	182	54	38	8	20
Other	611	251	558	566	1,969	340	329
Interest payments	68	284	520	715	1,436	277	390
Foreign interest payments	59	203	278	423	1,203	155	329
Domestic interest payments	9	81	242	292	233	123	61
Net lending 2/	556	101	-17	-165	-189	-75	-21
Unspecified expenditures	-13	-134	55	16	722	137	-40
(In percent of GDP)							
Total expenditures	29.4	22.1	22.3	21.8	21.9	22.8	24.8
General public services	2.2	2.4	2.7	2.9	2.6	3.5	3.1
Defence	1.5	1.2	1.5	1.4	1.7	2.0	2.7
Public order and safety affairs	2.1	1.7	1.5	1.2	1.0	1.1	1.7
Education	6.5	5.2	4.8	4.8	3.9	4.2	4.5
Health	3.7	3.2	2.9	2.9	2.3	2.6	2.5
Social security and welfare affairs	5.6	3.8	3.5	2.9	2.5	1.8	2.7
Social insurance	4.9	3.4	2.9	2.2	1.6	1.0	1.4
Social security	0.6	0.4	0.6	0.7	0.9	0.8	1.4
Housing and community services	1.1	1.3	0.9	1.1	1.0	1.4	1.6
Recreational, cultural and religious activities	0.8	0.5	0.5	0.5	0.6	0.5	0.8
Agriculture, water resources, forestry	1.1	0.8	0.8	1.0	0.7	0.8	1.0
Mining and mineral resources	0.4	0.3	0.2	0.2	0.2	0.3	0.1
Transportation and communication	0.4	0.4	0.6	0.7	1.1	0.9	1.0
Other economic affairs and services	0.3	0.1	0.6	0.2	0.1	0.1	0.2
Other	3.8	1.1	1.8	1.7	4.1	3.7	2.8
(In percent of expenditure)							
Total expenditures	100.0	100.0	100.0	100.0	100.0	100.0	100.0
General public services	7.6	10.8	12.2	13.2	12.0	15.3	12.3
Defence	5.0	5.6	6.8	6.4	7.6	8.9	10.9
Public order and safety affairs	7.0	7.8	6.9	5.5	4.3	4.8	7.0
Education	22.1	23.8	21.6	21.9	17.9	18.5	18.2
Health	12.4	14.3	13.0	13.3	10.6	11.4	10.2
Social security and welfare affairs	18.9	17.1	15.5	13.2	11.3	8.0	11.1
Social insurance	16.8	15.5	12.8	10.2	7.3	4.6	5.5
Social security	2.2	1.7	2.7	3.0	4.0	3.4	5.5
Housing and community services	3.8	5.7	4.0	5.0	4.4	6.2	6.3
Recreational, cultural and religious activities	2.7	2.4	2.1	2.5	2.8	2.2	3.1
Agriculture, water resources, forestry	3.6	3.8	3.5	4.7	3.4	3.3	4.2
Mining and mineral resources	1.3	1.1	1.0	0.9	0.9	1.1	0.6
Transportation and communication	1.5	2.0	2.6	3.1	5.0	3.8	4.0
Other economic affairs and services	1.0	0.7	2.7	0.7	0.4	0.4	0.7
Other	12.9	4.9	8.2	7.6	18.6	16.2	11.1
Memorandum items:							
Public investment program	610	739	949	1,952	4,578	880	1,071
Nominal GDP	16,146	23,400	30,684	34,181	48,321	9,181	11,957

Sources: Kyrgyz authorities; and Fund staff estimates.

1/ Includes special resources for functional categories starting in 1996.

2/ Includes loans to agriculture and loans from Turkey.

3/ Total expenditure does not include PIP.

Table 51. Kyrgyz Republic: Social Fund Financial Accounts, 1995-2000

	1995	1996	1997	1998	1999	2000 Q1-QII Prel.
(In millions of soms)						
Total revenues (not including bank deposits)	1,313.2	1,868.9	2,369.3	2,584.1	3,025.8	1,559.8
Pension Fund	1,016.1	1,600.5	2,071.9	2,209.5	2,505.8	1,361.0
Total contribution and carried over balance	905.0	1,014.7	1,507.9	1,705.1	2,017.3	1,153.0
Mandated transfer and dividends on shares	0.0	104.3	117.8	160.4	188.5	102.0
Government subsidy	111.1	293.0	446.2	344.0	300.0	106.0
Arrears collections	...	188.5	...	...	0.0	0.0
Social Insurance Fund	154.6	202.0	170.0	158.8	186.2	75.3
Employment Fund	142.5	66.4	86.4	101.1	133.1	62.4
Total contribution and carried over balance	51.9	66.4	86.4	101.1	132.1	62.4
Government subsidy	90.6	0.0	0.0	0.0	1.0	0.0
Medical Fund	...	...	41.0	114.7	200.8	61.1
Expenditure	1,344.4	1,948.3	2,289.6	2,491.8	2,957.5	1,493.6
Pension Fund	1,199.8	1,783.5	2,066.4	2,243.4	2,688.1	1,372.6
Of which: Payment of arrears	...	31.2	79.4	8.0	165.2	56.6
Social Insurance Fund	109.4	105.8	137.6	129.2	123.0	53.0
Employment Fund	35.2	59.0	76.4	88.3	73.3	31.6
Medical Fund	0.0	0.0	9.2	30.9	73.1	36.4
Surplus(+)/deficit(-) (after government subsidy)						
Pension Fund	-183.7	-183.0	5.5	-33.9	-182.3	-11.6
Social Insurance Fund	45.2	96.2	32.4	29.6	63.2	22.3
Employment Fund	107.3	7.4	10.0	12.8	59.8	30.8
Medical Fund	0.0	0.0	31.8	83.8	127.7	24.7
Carried-over grain stock	0.0	0.0	87.7	92.3	123.9	66.4
Arrears (new)	-31.2	-79.4	-8.0	-165.2	-54.8	-101.1
(In percent of GDP)						
Total revenues	8.1	8.0	7.7	7.6	6.3	2.6
Pension Fund	6.3	6.8	6.8	6.5	5.2	2.2
Total contribution and carried over balance	5.6	4.3	4.9	5.0	4.2	1.9
Mandated transfer	0.0	0.4	0.4	0.5	0.4	0.2
Government subsidy	0.7	1.3	1.5	1.0	0.6	0.2
Arrears collections	0.0	0.8	0.0	0.0	0.0	0.0
Social Insurance Fund	1.0	0.9	0.6	0.5	0.4	0.1
Employment Fund	0.9	0.3	0.3	0.3	0.3	0.1
Total contribution and carried over balance	0.3	0.3	0.3	0.3	0.3	0.1
Government subsidy	0.6	0.0	0.0	0.0	0.0	0.0
Medical Fund	0.0	0.0	0.1	0.3	0.4	0.1
Expenditure	8.3	8.3	7.5	7.3	6.1	2.5
Pension Fund	7.4	7.6	6.7	6.6	5.6	2.3
Of which: Payment of arrears	0.0	0.1	0.3	0.0	0.3	0.1
Social Insurance Fund	0.7	0.5	0.4	0.4	0.3	0.1
Employment Fund	0.2	0.3	0.2	0.3	0.2	0.1
Medical Fund	0.0	0.0	0.0	0.1	0.2	0.1
Pension Fund	-1.1	-0.8	0.0	-0.1	-0.4	0.0
Social Insurance Fund	0.3	0.4	0.1	0.1	0.1	0.0
Employment Fund	0.7	0.0	0.0	0.0	0.1	0.1
Medical Fund	0.0	0.0	0.1	0.2	0.3	0.0
Carried-over grain stock	0.0	0.0	0.3	0.3	0.3	0.1
Arrears (new)	-0.2	-0.3	0.0	-0.5	-0.1	-0.2
Memorandum item:						
GDP (in millions of soms)	16,145.6	23,399.7	30,684.1	34,181.4	48,321.1	60,614.5

Sources: Kyrgyz authorities; and Fund staff estimates.

1/ For 1997 expenditure estimates are derived from Social Fund estimates. They include payment of arrears of som 72 million; as of March 1, 1997 an increase of average pensions by 16 percent along with a halving of payments to working pensioners and a 1/3 decrease in agricultural pensions; a 20 percent increase of basic pensions beginning July 1, 1997; and introduction of a medical insurance program funded by a 2 percent employer payroll tax. Monthly payments increase from som 136 million to som 156 million initially and to som 177 million at mid-year.

Table 52. Kyrgyz Republic: Budgetary Expenditure Arrears, 1995-2000
(In millions of soms; end-period stocks)

	1995	1996	1997	1998	1999	2000 Q1 Prel.
Arrears of the Republican government	60.5	65.6	59.9	411.8	421.6	766.2
Wages	...	19.2	5.6	99.0	20.7	0.0
Social Fund contributions	...	3.2	2.6	24.4	3.4	0.0
Pension supplements	...	0.0	0.0	0.0	0.0	0.0
Subsidies to the Social Fund	...	15.1	29.0	0.0	0.0	0.0
Allowances for poor families	...	10.0	17.7	98.3	10.9	2.8
Categorical grants	...	0.0	0.0	162.5	74.1	0.0
External debt service	...	18.1	0.0	0.0	286.0	726.2
KyrgyzEnergo and other utility	...	...	5.0	27.6	26.5	37.2
Other	...	...	...	0.0	0.0	0.0
Arrears of the local governments	152.6	110.0	91.1	342.5	179.7	150.3
Wages	70.2	38.9	25.5	177.6	102.9	82.5
Social contributions	82.4	71.1	46.6	101.3	76.8	67.8
Pension supplements	...	0.0	0.0	0.0	0.0	0.0
Allowances for poor families	...	0.0	0.0	0.0	0.0	0.0
KyrgyzEnergo and other utility	...	...	19.0	63.6	0.0	0.0
Other	...	...	...	0.0	0.0	0.0
State government expenditure arrears	213.1	157.5	151.0	591.8	241.2	190.3
Social Fund	89.0	...	14.9	78.0	54.8	95.2
Pensions	89.0	...	14.9	78.0	54.8	95.2
Other	...	...	...	0.0	0.0	0.0
General government expenditure arrears	302.0	157.5	165.9	669.8	296.0	285.5

Source: Ministry of Finance.

Table 53. Kyrgyz Republic: Tax Arrears, 1995-2000
(In millions of soms; end-period stocks)

	1995	1996	1997	1998	1999	2000	
						QI Prel.	QII Prel.
Total tax arrears (stock, end-period)	136.1	208.9	509.6	453.4	368.4	468.8	456.8
Income tax	0.0	0.0	6.1	19.3	21.4	25.2	20.2
Profit tax	24.2	39.5	33.8	46.8	36.1	68.3	47.2
VAT	54.4	87.7	373.8	240.1	190.9	214.4	239.3
Excises	25.0	11.8	16.8	19.1	15.2	27.3	35.9
Emergency Fund	12.6	23.1	19.9	41.3	31.2	60.2	46.7
Road tax	4.5	10.4	36.6	16.4	14.4	26.1	19.2
Land tax	9.2	14.7	21.3	55.2	44.2	30.7	32.2
Other	6.2	21.7	1.3	15.2	15.0	16.6	16.1
Net Increase in total tax arrears (flow)	...	...	300.7	-56.3	-198.4	100.4	-12.0
New tax arrears	...	...	328.0	194.8	165.8	193.8	242.9
Gross tax arrears reduction	...	...	27.3	251.1	364.2	93.4	254.9
Memorandum items:							
Tax offsets	552.1	916.7	867.1	1,336.5	945.4	76.1	107.7
Tax collections	2,423.1	2,967.9	3,847.3	4,866.5	5,972.5	1,457.1	1,776.9
Tax offsets as percent of tax revenues	22.8	30.9	22.5	27.5	15.8	5.2	6.1

Source: Ministry of Finance.

Table 54. Kyrgyz Republic: National Bank of Kyrgyz Republic (NBKR) Accounts, 1995-2000
(in millions of soms)

	1995	1996	1997	1998				1999				2000	
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
Net foreign assets (NFA)	-497.8	-301.1	381.6	427.6	150.6	198.9	318.0	469.2	434.0	1,477.3	2,601.9	2,562.9	3,419.9
Net international reserves	-111.1	-189.1	489.3	536.8	264.7	251.2	372.6	520.7	498.2	1,540.0	2,664.6	2,625.0	3,481.4
Claims on other BRO countries 1/	-386.7	-111.9	-107.7	-109.2	-114.2	-52.3	-54.5	-51.4	-64.2	-62.7	-62.7	-62.1	-61.4
Medium-term NBKR obligations	-436.4	-748.1	-880.0	-989.4	-986.3	-1,139.3	-1,512.9	-1,737.8	-2,170.4	-2,214.3	-2,387.4	-2,519.8	-2,488.7
Net domestic assets (NDA)	2,978.4	3,582.5	3,567.5	3,708.9	3,984.9	3,897.4	4,472.7	4,428.7	4,967.7	4,517.2	3,829.5	3,749.9	3,322.1
Credit to central government, net	2,033.9	3,763.5	3,949.0	3,972.2	4,123.4	4,220.4	4,415.8	4,415.2	4,711.8	4,440.7	3,863.1	3,987.4	3,365.2
Direct credits	1,606.8	2,206.3	1,938.8	1,938.8	1,938.8	1,938.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Budget account deposits	-5.8	-147.3	-19.6	-50.5	-49.6	-59.0	-63.1	-150.0	-108.7	-390.3	-1,154.3	-1,125.5	-1,476.7
Foreign loans counterpart funds	-0.8	-0.1	-200.1	-175.5	-10.4	-50.7	-121.7	0.0	-6.6	-46.3	0.0	0.0	0.0
Government bonds 2/	0.0	985.5	1,020.1	1,020.1	1,020.1	1,020.1	1,020.1	1,020.1	1,036.5	1,096.7	1,096.7	1,096.7	1,097.7
Treasury bills (actual value)	0.0	0.0	421.9	439.3	439.4	461.6	2,396.2	2,163.1	2,080.7	2,080.7	2,080.7	2,080.7	1,853.2
Turkish loan onlending	433.6	719.0	787.9	799.9	785.2	907.0	1,204.5	1,383.5	1,727.9	1,762.9	1,862.7	1,957.9	1,926.1
Credit to other government, net	-2.0	-6.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to banks	1,178.7	123.7	90.6	163.6	192.3	225.9	323.0	392.3	349.9	289.9	269.4	509.6	501.8
Of which													
EBRD credit line	2.8	29.1	90.5	163.5	192.2	225.9	295.2	342.6	412.8	392.9	433.7	468.7	453.7
Other items, net	-232.2	-298.2	-472.0	-426.9	-330.8	-548.9	-66.0	-378.8	-94.1	-213.4	-303.0	-747.0	-544.9
Of which													
Reverse repos	0.0	0.0	-183.2	-58.4	-24.7	-93.6	-31.7	-114.3	-78.7	-155.0	-226.1	-345.4	-260.5
Reserve money	2,044.2	2,533.3	3,069.1	3,147.0	3,149.2	2,957.0	3,277.8	3,160.2	3,231.3	3,780.1	4,043.9	3,793.1	4,253.4
Currency in circulation	1,963.2	2,439.0	2,741.8	2,806.4	2,775.1	2,629.7	2,930.0	2,913.8	3,045.8	3,591.4	3,732.0	3,521.4	3,945.4
Bank deposits	81.0	94.4	327.3	340.7	374.1	327.3	347.8	246.3	185.5	188.7	311.9	271.6	307.9
Memorandum items:													
NIR (in U.S. dollars)	-9.9	-11.3	28.2	29.7	13.8	11.2	12.7	15.4	11.8	35.8	58.7	55.0	74.1
Velocity (quarterly)	7.2	9.1	8.4	5.0	5.6	10.0	8.8	5.6	6.5	13.2	11.1	6.1	6.9 3/
Annual growth rate of:													
Broad money	76.7	22.9	25.4	...	...	...	17.2	...	...	...	33.9	...	...
Reserve money	91.4	23.9	21.1	...	...	...	6.3	...	...	...	23.9	...	...
Credit to the economy	4.3	-2.9	19.9	...	...	...	...	...	...	...	...	...	...
Money multiplier	1.3	1.3	1.4	1.4	1.5	1.6	1.5	1.7	1.7	1.7	1.6	1.7	1.6
Share of currency in broad money	71.3	71.8	63.9	60.0	56.9	53.8	57.6	53.8	53.1	54.1	54.4	52.5	54.7
Foreign currency deposits/total deposits	27.2	42.0	42.6	39.0	37.1	43.2	55.8	59.4	63.0	63.5	64.4	62.2	5.9
Exchange rate	11.2	16.7	17.4	18.1	19.2	22.4	29.4	33.7	42.1	43.0	45.4	47.8	46.9

Sources: National Bank of the Kyrgyz Republic; and Fund staff estimates.

1/ From December 1996 onwards, incorporates a revaluation of claims and liabilities vis-a-vis other CIS countries.

2/ From December 1996 onwards, reflects the acquisition of government bonds by the NBKR as part of the restructuring of the financial sector, leading to a corresponding reduction in credit to the economy.

Table 55. Kyrgyz Republic: Monetary Survey, 1995-2000
(In millions of soms)

	1995	1996	1997	1998				1999				2000	
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
Net foreign assets (NFA)	-490.4	-38.6	749.4	759.3	395.1	369.5	576.3	919.5	863.6	2,103.2	3,236.8	3,275.7	4,231.6
Medium-term NBKR obligations	-436.4	-748.1	-880.0	-989.4	-986.3	-1,139.3	-1,512.9	-1,737.8	-2,170.4	-2,214.3	-2,387.4	-2,519.8	-2,488.7
Net domestic assets (NDA)	3,645.3	4,127.4	4,318.8	4,775.3	5,312.7	5,474.5	5,846.7	6,038.2	6,821.8	6,446.2	5,725.2	5,626.2	5,146.7
Credit to central government, net	2,174.1	3,925.7	4,242.8	4,414.7	4,647.7	4,670.2	4,548.8	4,679.7	5,000.9	4,541.2	3,949.1	4,061.1	3,543.9
Credit from the NBKR 1/	2,033.9	3,763.5	3,949.0	3,972.2	4,123.4	4,220.4	4,415.8	4,415.2	4,711.8	4,440.7	3,863.1	3,987.4	3,365.2
Credit from commercial banks	140.2	162.2	293.9	442.6	524.3	449.8	133.1	264.5	289.0	100.5	86.0	73.7	178.7
Credit to other government, net	-60.7	-27.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to rest of the economy 1/	1,949.7	873.8	1,047.3	1,337.6	1,585.1	1,783.1	1,803.7	2,071.9	2,386.0	2,450.5	2,445.9	2,493.4	2,392.4
Other items, net	-417.8	-644.4	-971.3	-977.0	-920.1	-978.8	-505.9	-713.4	-565.1	-545.5	-669.8	-928.3	-789.6
Broad money	2,718.5	3,340.8	4,188.3	4,545.2	4,721.5	4,704.8	4,910.0	5,219.9	5,515.0	6,335.0	6,574.5	6,382.1	6,889.6
Currency outside banks	1,937.6	2,398.0	2,677.7	2,726.0	2,685.4	2,529.8	2,829.2	2,810.1	2,927.5	3,428.8	3,578.4	3,347.6	3,770.2
Deposits	780.8	942.8	1,510.6	1,819.2	2,036.2	2,175.0	2,080.8	2,409.8	2,587.5	2,906.3	2,996.1	3,034.6	3,119.4
Of which													
Foreign currency deposits	212.0	395.7	643.3	710.0	755.2	939.9	1,163.0	1,432.7	1,629.3	1,844.1	1,824.8	1,888.8	1,834.5

Sources: National Bank of the Kyrgyz Republic; and Fund staff estimates and projections.

1/ From December 1996 onwards, reflects the acquisition of government bonds by the NBKR as part of the restructuring of the financial sector, leading to a corresponding reduction in credit to the economy.

Table 56. Kyrgyz Republic: Key Central Bank Interest Rates, 1996-2000
(In percent unless stated otherwise)

	Prime interest rate (End-of-period) 1/	3-month Treasury Bill rate (Weighted average) 2/	Lombard rate (End-of-period) 3/	Reverse repo rate (End-of-period) 4/	Repo rate (End-of-period) 5/	Reserve requirement rate (RR) 6/	Penalty rate for RR non-compliance 7/
1996							
March	36.2	35.5	41.2	--	--	15.0	42.6
June	36.7	34.0	41.7	--	--	13.5	40.8
September	40.0	54.2	45.0	--	--	13.5	65.0
December	45.9	52.3	51.0	--	--	15.0	62.8
1997							
March	45.1	45.1	54.2	--	--	20.0	54.2
June	25.9	25.9	31.1	25.0	--	20.0	36.3
September	29.6	29.6	35.6	43.6	39.4	20.0	41.5
December	23.5	23.5	28.2	27.6	--	20.0	32.9
1998							
March	24.5	24.5	29.4	21.5	--	20.0	26.5
June	50.0	41.5	60.0	50.0	60.0	20.0	100.0
September	50.0	58.9	70.0	65.0	--	20.0	140.0
December	32.9	32.9	90.9	65.0	--	20.0	138.1
1999							
March	32.0	32.0	32.0	23.0	--	20.0	90.6
June	45.8	45.8	62.8	49.0	--	20.0	199.7
September	54.2	54.2	54.2	38.9	54.5	20.0	166.0
December	55.1	55.1	62.4	56.0	--	20.0	172.2
2000							
March	42.1	42.1	42.1	39.0	--	20.0	127.1
June	13.9	15.6	13.9	--	--	20.0	57.9

Sources: National Bank of the Kyrgyz Republic; and Fund staff estimates and projections.

1/ Rate at which the NBKR lends to commercial banks. Until December 1996, NBKR credit auction rate. Starting January 1997, after the abolition of credit auctions, equal to 3-month Treasury Bill rate in the primary market. Since June 1998, set independently by NBKR Board of Directors. Since December 1998 again equal to the 3-month Treasury bill rate.

2/ Weighted average annual rate on 3-month Treasury Bills in the primary market.

3/ Rate at which the NBKR extends collateralized short-term liquidity loans to banks. From December 1998 Lombard facility is an overnight facility.

4/ Rate at which the NBKR sells government securities to commercial banks to mop up liquidity.

5/ Rate at which the NBKR purchases government securities from commercial banks to mop up liquidity.

6/ Required reserves on deposits in national and foreign currency to be held by commercial banks on accounts with the NBKR.

7/ Until March 1997, penalty rate for non-compliance was 1.2 times the 3-month Treasury Bill rate in the primary market at the end of the reporting period. Between April 1997 and July 1998, penalty rate was raised to 1.4 times that Treasury Bill rate. Beginning August 1998, penalty rate was raised to 2 times the Lombard rate, and beginning November 17, 1998, to three times the Lombard rate.

As of December 1, 1998, the penalty rate was set at three times the prime interest rate.

Table 57. Kyrgyz Republic: Interest Rates Developments, 1996-2000 1/
(In percent)

	Credits		Commercial deposits		Retail deposits		3-month Treasury Bills 3/
	U.S. dollars	Soms 2/	U.S. dollars	Soms 2/	U.S. dollars	Soms	
1996 March	...	71.63	...	18.07	19.62	29.69	42.10
June	...	68.79	...	31.49	18.80	31.17	41.15
September	...	57.35	...	34.39	18.38	36.49	58.69
December	40.87	65.02	15.00	36.73	14.71	25.06	56.99
1997 March	69.61	70.49	18.59	38.26	12.87	40.85	63.78
June	53.58	57.91	9.08	33.78	11.03	19.77	33.32
September	50.40	59.90	23.72	36.10	6.19	23.14	36.34
December	27.46	49.40	5.00	39.60	5.10	31.38	29.83
1998 March	37.70	52.08	0.00	24.06	5.02	34.20	29.42
June	39.46	55.65	0.00	32.11	14.89	27.98	39.33
September	46.35	67.77	17.37	26.66	12.61	37.55	76.48
December	43.61	73.44	18.15	47.50	11.52	64.10	72.03
1999 March	35.76	56.00	19.14	26.88	5.76	29.55	31.83
June	19.12	51.77	17.71	23.50	5.23	25.43	56.95
September	35.84	66.73	16.98	22.48	2.67	12.48	54.57
December	37.01	60.86	9.68	29.67	2.29	20.07	55.57
2000 March	33.98	56.17	8.89	27.84	1.70	16.54	42.11
June	37.51	71.21	8.40	24.81	0.87	12.62	15.58

Source: National Bank of the Kyrgyz Republic.

1/ Rates refer to new credits and deposits extended during the month.

2/ Weighted average annual rate on new loans in som granted for a period of 1-3 months to all sectors.

3/ Weighted average annual rate on 3-month Treasury Bills in the primary market.

Table 58. Kyrgyz Republic: Development of Foreign Exchange Auctions and Interbank Market, 1996-2000
(In millions of U.S. dollars unless stated otherwise)

	Volume of NBKR sales to Central Treasury	Volume of NBKR sales to private sector	Of which:		Total volume of NBKR sales	Volume of NBKR purchases in interbank market	Som per U.S. dollar 1/	
			Volume of NBKR sales in auctions	Volume of NBKR sales in interbank market			Average	End-of-period
	(1)	(2)=(3)+(4)	(3)	(4)	(5)=(1)+(2)	(6)		
1996	16.3	105.4	104.0	1.4	121.7	8.1	12.8	16.7
January	0.2	17.1	17.1	0.0	17.2	0.5	11.2	11.3
February	2.8	12.3	10.9	1.4	15.1	0.5	11.3	11.4
March	1.7	9.2	9.2	0.0	10.9	0.5	11.4	11.4
April	2.5	10.5	10.5	0.0	13.0	0.2	11.6	11.7
May	0.5	6.2	6.2	0.0	6.7	0.1	12.1	12.0
June	1.8	5.7	5.7	0.0	7.5	0.7	12.3	12.2
July	0.9	5.4	5.4	0.0	6.2	1.9	12.2	12.3
August	2.0	6.2	6.2	0.0	8.2	2.1	12.2	12.2
September	1.1	4.1	4.1	0.0	5.2	0.5	12.8	13.3
October	2.2	7.5	7.5	0.0	9.7	0.0	14.0	15.4
November	0.2	13.7	13.7	0.0	13.9	0.0	15.8	16.9
December	0.4	7.5	7.5	0.0	7.9	1.3	16.8	16.7
1997	28.1	46.5	46.5	0.0	74.6	4.4	17.4	17.4
January	1.8	8.0	8.0	0.0	9.8	0.6	17.0	17.1
February	0.8	4.3	4.3	0.0	5.1	0.2	16.9	17.3
March	3.7	3.9	3.9	0.0	7.6	0.6	17.6	17.6
April	2.3	3.2	3.2	0.0	5.5	0.5	17.9	17.9
May	0.8	3.1	3.1	0.0	3.9	0.9	17.9	17.8
June	5.9	2.6	2.6	0.0	8.5	0.1	17.3	17.4
July	2.5	4.3	4.3	0.0	6.8	0.0	17.3	17.3
August	2.4	3.7	3.7	0.0	6.2	0.0	17.3	17.2
September	1.9	3.4	3.4	0.0	5.3	0.7	17.5	17.4
October	0.7	1.7	1.7	0.0	2.4	0.4	17.2	17.0
November	2.6	4.5	4.5	0.0	7.1	0.0	17.2	17.4
December	2.6	4.0	4.0	0.0	6.7	0.5	17.4	17.4
1998	28.0	51.0	15.4	35.6	79.1	4.8	21.0	29.4
January	2.1	6.3	6.3	0.0	8.4	0.0	17.7	18.0
February	1.9	1.3	1.3	0.0	3.2	0.0	17.7	17.6
March	1.8	1.1	1.1	0.0	2.9	0.0	18.0	18.1
April	1.3	2.6	2.6	0.0	3.8	0.0	18.3	18.8
May	3.7	3.5	3.5	0.0	7.2	0.0	19.5	20.2
June	6.1	1.0	0.7	0.3	7.1	2.1	19.5	19.2
July 1/	0.6	4.6	0.0	4.6	5.2	0.1	19.4	19.5
August	2.7	11.0	0.0	11.0	13.7	0.0	19.7	20.2
September	0.6	9.9	0.0	9.9	10.5	0.1	21.3	22.4
October	1.4	5.5	0.0	5.5	6.9	0.0	23.4	24.9
November	0.6	3.0	0.0	3.0	3.6	0.3	28.0	28.9
December	5.4	1.4	0.0	1.4	6.8	2.2	29.3	29.4
1999	19.5	33.6	0.0	33.6	53.1	10.9	39.2	45.3
January	1.3	6.7	0.0	6.7	8.3	0.0	30.1	30.4
February	0.6	0.0	0.0	0.0	0.6	4.3	30.7	33.8
March	0.8	1.2	0.0	1.2	2.0	1.2	32.2	30.4
April	2.3	3.9	0.0	3.9	6.2	0.0	37.0	38.5
May	0.4	3.7	0.0	3.7	4.1	0.0	41.2	43.2
June	2.1	1.0	0.0	1.0	3.1	0.0	42.2	41.2
July 2/	1.3	0.0	0.0	0.0	1.3	0.3	39.8	40.5
August	0.9	7.4	0.0	7.4	8.3	0.0	41.7	42.5
September	1.6	1.3	0.0	1.3	2.9	0.5	42.8	42.8
October	1.2	0.4	0.0	0.4	1.6	2.6	42.8	43.0
November	1.4	6.2	0.0	6.2	7.6	0.1	44.4	45.9
December	5.2	1.7	0.0	1.7	6.9	1.9	45.8	45.3
2000	7.6	12.0	0.0	12.0	19.6	2.0	47.3	48.0
January	0.5	5.3	0.0	5.3	5.8	0.5	46.6	46.7
February	1.4	2.7	0.0	2.7	4.1	0.8	47.0	47.4
March	1.8	2.2	0.0	2.2	4.0	0.8	47.6	47.7
April	3.9	1.8	0.0	1.8	5.7	0.0	47.9	48.0
May	2.4	2.3	0.0	2.3	4.7	0.3	48.1	48.3
June	2.6	0.1	0.0	0.1	2.7	2.4	47.6	47.0

Sources: National Bank of the Kyrgyz Republic; and Fund staff estimates.

1/ Before July 1998 based on NBKR foreign exchange auctions; from July 1998 based on interbank market transactions. As of July 1998, foreign exchange auctions were abolished. Since then, the NBKR has participated in the foreign exchange interbank market.

Table 59. Kyrgyz Republic: Stock of Outstanding Government Securities, 1996-2000
(In millions of som, end-of-period)

	Total	NBKR						Commercial Banks				Other residents				Non-residents			
		GSOs 1/	Treasury Bills		KOs 2/	Total	Treasury Bills		KOs 2/	Total	Treasury Bills		KOs 2/	Total	Treasury Bills		Total		
			Nominal	Actual			Nominal	Actual			Nominal	Actual			Nominal	Actual			
1996																			
December	1,185.5	0.0	0.0	0.0	985.5	985.5	151.3	123.4	22.0	173.3	26.7	21.7	0.0	26.7	0.0	0.0	0.0		
1997																			
March	1,331.8	0.0	0.0	0.0	1,002.0	1,002.0	158.1	124.9	121.5	279.6	50.2	39.7	0.0	50.2	0.0	0.0	0.0		
June	1,469.4	0.0	75.8	69.0	1,017.7	1,093.4	185.4	150.2	119.8	305.2	55.0	44.6	2.0	57.0	13.8	11.2	13.8		
September	1,875.8	408.1	0.0	0.0	1,020.1	1,428.1	204.7	167.9	139.5	344.2	38.9	32.0	2.0	40.9	62.6	51.8	62.6		
December	1,948.4	440.8	0.0	0.0	1,020.1	1,460.9	214.1	172.8	134.4	348.4	35.5	28.6	1.8	37.3	101.8	82.2	101.8		
1998																			
March	2,163.0	440.8	0.0	0.0	1,020.1	1,460.9	414.9	339.6	127.2	542.0	43.0	35.2	1.8	44.8	115.2	94.3	115.2		
June	2,265.9	440.8	0.0	0.0	1,020.1	1,460.9	490.9	396.2	127.2	618.1	60.6	48.9	1.8	62.4	124.5	100.5	124.5		
September	2,217.0	440.8	26.0	22.5	1,020.1	1,486.8	365.9	316.8	128.9	494.9	119.5	103.5	37.2	156.8	78.5	68.0	78.5		
December	3,954.1	2,379.6	22.3	16.5	1,020.1	3,422.0	259.6	192.8	127.2	386.7	121.9	90.5	8.9	130.8	14.6	10.8	14.6		
1999																			
March	3,601.0	2,162.6	0.7	0.5	1,020.1	3,183.3	169.2	124.8	130.7	299.9	112.5	83.0	5.4	117.8	0.0	0.0	0.0		
June	3,409.0	2,080.7	0.0	0.0	1,020.1	3,100.8	86.6	65.4	130.7	217.3	85.6	64.7	5.4	91.0	0.0	0.0	0.0		
September	3,391.0	2,080.7	0.0	0.0	1,036.5	3,117.2	97.2	77.9	114.3	211.5	57.0	45.7	5.4	62.3	0.0	0.0	0.0		
December	3,394.6	2,080.7	0.0	0.0	1,096.7	3,177.4	115.2	95.4	46.9	162.1	49.7	41.2	5.4	55.1	0.0	0.0	0.0		
2000																			
March	3,658.4	2,080.7	0.0	0.0	1,096.7	3,177.4	93.0	77.9	218.3	311.3	40.5	34.0	129.2	169.8	0.0	0.0	0.0		
June	3,473.2	1,853.2	0.0	0.0	1,148.9	3,002.1	147.0	125.7	148.3	295.3	50.9	43.5	125.0	175.9	0.0	0.0	0.0		

Source: National Bank of the Kyrgyz Republic.

1/ GSOs are non-interest bearing securities issued to securitize previously extended direct NBKR credit to the government and provide the NBKR with a stock of government securities to conduct Medium - to long-term government bonds.

Table 60. Kyrgyz Republic: Composition of Credits and Deposits to the Economy by Sector, Maturity, Currency, and Bank, 1996-2000

	1996	1997				1998				1999				2000	
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
Composition of credits															
	(In percent of total credits)														
I. By sector:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Industry	5.3	6.7	7.1	5.8	5.9	4.9	8.9	6.9	7.4	6.9	9.3	15.4	13.8	17.9	17.6
Agriculture	1.6	1.6	1.3	1.5	0.9	1.0	1.0	1.0	0.8	0.9	1.2	1.1	1.9	1.8	1.8
Trade	22.2	22.2	21.1	19.6	16.1	16.5	43.2	42.4	33.0	44.9	24.9	25.0	24.0	21.2	16.9
Construction	3.9	4.7	2.9	2.8	2.5	2.8	5.3	5.8	13.7	6.1	6.6	5.9	7.5	5.7	5.6
Private citizens	18.8	36.9	29.6	17.1	20.1	16.8	17.1	16.2	15.9	14.5	20.3	21.1	20.4	20.5	22.1
Other	48.0	27.9	38.0	53.2	54.6	58.0	24.5	27.8	29.2	26.8	37.6	31.7	32.4	33.0	36.0
II. By maturity:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
less than 1 month	4.2	0.3	0.7	2.6	2.8	1.4	4.0	4.7	2.0	1.1	8.7	4.0	2.0	2.9	1.8
1 month to < 3 months	19.8	14.3	10.4	7.8	10.0	10.2	9.4	7.1	7.6	7.8	10.5	11.4	10.7	12.3	11.9
3 months to < 6 months	44.1	50.4	26.9	59.6	58.8	52.5	28.3	44.2	34.3	45.8	28.4	27.8	32.6	27.0	28.0
6 months to < 12 months	10.4	14.8	42.3	12.3	13.6	18.3	39.4	19.3	21.4	18.0	22.8	24.9	23.3	27.2	28.3
1 year to < 5 years	20.1	18.6	15.5	14.4	14.5	17.4	18.7	24.5	34.5	27.3	29.5	27.6	30.1	29.4	28.1
more than 5 years	1.4	1.6	4.2	3.4	0.3	0.2	0.2	0.1	0.1	0.1	0.1	4.4	1.4	1.2	2.0
III. By currency:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
National currency	61.4	55.2	53.2	46.7	47.6	44.5	46.4	43.2	29.0	23.8	31.7	30.1	29.2	29.8	32.7
Foreign currency	38.6	44.8	46.8	53.4	52.4	55.5	53.6	56.8	71.0	76.2	68.3	69.9	70.8	70.2	67.3
IV. By bank:															
Most active bank	27.1	29.8	31.1	37.6	36.2	36.6	35.5	30.7	27.7	33.9	18.1	22.7	19.4	20.0	19.5
Four most active banks	62.8	63.5	66.4	70.7	64.3	65.8	64.1	65.3	58.7	62.0	54.4	57.3	52.9	59.0	56.1
Composition of deposits															
	(In percent of total deposits)														
I. By depositor	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Legal entities	67.5	63.9	64.6	55.8	48.9	45.6	42.5	42.2	45.9	44.3	53.3	61.7	61.4	60.0	58.0
Individuals	32.5	36.1	35.4	44.2	51.1	54.4	57.5	57.8	54.1	55.7	46.7	38.3	38.6	40.1	40.9
II. By maturity:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
less than 1 month	69.5	68.0	62.4	59.7	58.1	52.4	47.4	43.4	48.1	56.2	59.6	62.5	58.6	58.8	82.7
1 month to < 3 months	9.0	6.2	8.1	8.4	7.0	6.5	4.4	7.9	16.7	22.9	12.4	9.8	8.0	9.7	7.3
3 months to < 6 months	13.8	18.4	23.0	27.5	28.0	27.6	31.6	33.4	28.4	15.9	20.9	21.1	23.4	16.8	16.0
6 months to < 12 months	6.7	6.3	5.3	3.6	6.2	8.1	8.2	8.3	6.5	4.7	7.0	6.4	9.8	14.0	13.0
1 year to < 5 years	1.1	1.1	1.2	0.9	0.7	5.3	8.4	7.1	0.3	0.3	0.1	0.3	0.2	0.7	1.0
more than 5 years															
III. By currency	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
National currency	58.0	57.5	62.2	60.9	58.2	61.6	63.4	57.2	44.7	41.0	45.4	44.9	46.1	45.9	47.7
Foreign currency	42.0	42.5	37.8	39.1	41.8	38.4	36.6	42.8	55.3	59.0	54.7	55.1	53.9	54.1	52.3
IV. By bank:															
Most active bank	14.2	14.1	15.4	18.5	17.6	24.3	26.0	22.8	17.4	14.3	14.1	22.9	17.6	22.1	16.9
Four most active banks	63.0	56.9	59.8	60.6	58.1	59.8	60.3	63.7	57.6	53.3	45.1	52.2	50.6	55.8	51.3

Sources: National Bank of the Kyrgyz Republic; and Fund staff estimates.

Table 61. Kyrgyz Republic: Privatization by Sector and Type of Property, 1995-2000

	1995	1996	1997	1998	1999	2000 Q1
(Numbers of enterprises sold; cumulative; end-of-period)						
Privatization by sector						
Industry	462	483	531	527	531	531
Consumer services	1,899	1,913	1,917	1,932	1,934	1,934
Nonproductive sphere	416	428	434	453	498	506
Trade and catering	1,801	1,887	1,894	1,891	1,896	1,901
Agriculture	342	343	354	356	359	360
Construction	390	413	418	420	425	427
Transport	136	141	154	163	165	165
Other branches	449	596	673	781	871	887
Total 1/	5,895	6,204	6,375	6,523	6,679	6,711
Privatization by type						
Conversion to joint stock company	...	...	...	1,650	1,669	1,673
Rented to subsequently purchase	...	...	...	106	115	119
Sale through commercial competition	...	...	...	1,192	1,197	1,197
Conversion to limited joint stock company	...	...	...	206	212	213
Sale to private parties and workers' collectives	...	...	...	2,883	2,989	3,009
Auctioned	...	...	...	486	497	500
(Number of workers)						
Employment in privatized enterprises, by sector						
Industry	147	144	138	154	...	...
Consumer services	12	10	10	10	...	...
Nonproductive sphere	36	27	29	36	...	...
Trade and catering	94	141	170	176	...	...
Agriculture	738	747	785	810	...	...
Construction	48	49	49	45	...	...
Transport	32	42	43	45	...	...
Total 1/	1,125	1,197	1,253	1,705	...	...

Source: State Property Fund.

1/ Excluding privatized housing.