Table 4.Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public Debt 2007-2027

	Projections							
	2007	2008	2009	2010	2011	2012	2017	2027
NPV of Debt-to-GDP Ratio								
Baseline	42	37	33	31	30	29	27	25
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	42	41	41	43	46	48	60	82
A2. Primary balance is unchanged from 2007	42	37	33	32	31	30	30	32
A3. Permanently lower GDP growth 1/	42	37	34	33	33	33	38	59
A4. Terms-of-Trade Shock (sharp decline in gold prices)	42	37	35	36	38	40	43	37
A5. Failure to Reform the Pension System	42	37	34	33	32	32	35	42
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	42	40	41	41	43	44	53	67
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	42	43	45	42	41	40	37	31
B3. Combination of B1-B2 using one half standard deviation shocks	42	43	45	42	41	39	35	29
B4. One-time 30 percent real depreciation in 2008	42	51	46	43	41	40	36	33
B5. 10 percent of GDP increase in other debt-creating flows in 2008	42	45	41	39	37	36	33	29
NPV of Debt-to-Revenue Ratio 2/								
Baseline	157	138	124	119	117	114	106	96
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	157	154	155	166	178	187	236	322
A2. Primary balance is unchanged from 2007	157	138	125	122	120	118	118	123
A3. Permanently lower GDP growth 1/	157	139	127	126	127	127	147	233
A4. Terms-of-Trade Shock (sharp decline in gold prices)	157	138	132	138	146	152	164	132
A5. Failure to Reform the Pension System	157	138	126	124	125	125	137	161
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	157	151	154	159	166	171	207	264
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	157	161	168	162	159	154	142	121
B3. Combination of B1-B2 using one half standard deviation shocks	157	162	169	162	159	153	139	115
B4. One-time 30 percent real depreciation in 2008	157	191	171	164	161	155	142	127
B5. 10 percent of GDP increase in other debt-creating flows in 2008	157	169	152	147	144	140	129	112
Debt Service-to-Revenue Ratio 2/								
Baseline	9	7	9	9	9	8	7	11
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	9	7	12	13	14	14	17	31
A2. Primary balance is unchanged from 2007	9	7	9	9	10	9	8	13
A3. Permanently lower GDP growth 1/	9	7	9	9	10	9	10	22
A4. Terms-of-Trade Shock (sharp decline in gold prices)	9	7	9	8	9	7	17	16
A5. Failure to Reform the Pension System	9	7	9	9	10	10	11	21
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	9	8	11	12	13	13	14	26
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	9	7	13	15	12	10	11	14
B3. Combination of B1-B2 using one half standard deviation shocks	9	8	13	14	12	10	10	13
B4. One-time 30 percent real depreciation in 2008	9	8	10	10	10	9	9	14
B5. 10 percent of GDP increase in other debt-creating flows in 2008	9	7	15	11	11	9	9	13

Sources: Country authorities; and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).
2/ Revenues are defined inclusive of grants.

Statement by the IMF Staff Representative
November 16, 2007

The following information has become available since the staff report was issued. It does not change the thrust of the staff appraisal.

1. **Political situation**. In advance of parliamentary elections scheduled for December 16, and in line with the new constitution, the prime minister and government formally resigned in late October and were reappointed on an interim basis. President Bakiev is seeking a mandate in the elections for his new party, which would likely lead to a more cooperative relationship between government and parliament.

2. **Output and prices.** The economy continues to rebound, with year-on-year GDP growth of 8½ percent in the period January–October, driven by the construction, manufacturing and services sectors. However, 12-month consumer price inflation rose further to 23 percent in October. Soaring food prices continue to be the main factor, with nonfood inflation still relatively low at 6½ percent. Weekly data for November suggest that price pressures may now have begun to ease, helped by the National Bank's marked tightening of monetary policy and the sharp appreciation of the exchange rate during September and early October. It is now clear that, as a result of the external shock from food prices, inflation will end the year well above the authorities' target of 9 percent, but staff considers that the policies now being implemented and described in the staff report—aimed at containing the second-round effects—remain appropriate and should result in a substantial reduction in inflation over the next few months.

3. **Exchange rate**. Since end-August, the exchange rate has appreciated by nearly 9 percent against the dollar. In recent weeks, the authorities have limited intervention to smoothing sharp fluctuations in the exchange rate, and the rate has been relatively stable as foreign exchange inflows appear to have slowed. International reserves remained at over $1 billion at end-October, almost unchanged from their end-September level.

4. **Banking Sector.** Banking sector loans and deposits have stabilized in the past two weeks at 3–4 percent below their end-September peak levels, with deposits and loans of Kazakh-owned banks down 6–8 percent. While spillovers from the credit crunch in Kazakhstan appear to be contained so far, the central bank remains concerned and is monitoring the situation carefully.

5. **Fiscal issues.** Strong fiscal performance continued in the 3rd quarter of 2007. Preliminary data for the first three-quarters indicate a fiscal surplus of over 2¼ percent of GDP on an annualized basis, compared with a full year programmed deficit of 3 percent. This over performance is due to continued buoyancy in revenues and under execution of expenditures. The authorities have allocated some additional resources to finance the