Kyrgyz Republic: Fourth and Fifth Reviews under the Three-Year Arrangements under the Extended Credit Facility, and Request for Modification of Performance Criteria-Press Release; Staff Report

INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/53

KYRGYZ REPUBLIC

FOURTH AND FIFTH REVIEWS UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; AND STAFF REPORT

February 2018

In the context of the Fourth and Fifth Reviews under the Three-Year Arrangements under the Extended Credit Facility, and Request for Modification of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 15, 2017, following discussions that ended on November 8, 2017, with the officials of the Kyrgyz Republic on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on December 4.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis Update** prepared by the staffs of the IMF and International Development Association (IDA) .

The documents listed below have been or will be separately released:

Letter of Intent sent to the IMF by the authorities of the Kyrgyz Republic*
Technical Memorandum of Understanding*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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FOR IMMEDIATE RELEASE
December 15, 2017

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes the Fourth and Fifth Reviews Under the Extended Credit Facility Arrangement for the Kyrgyz Republic

On December 15, 2017, the Executive Board of the International Monetary Fund (IMF) completed the fourth and fifth reviews of the Kyrgyz Republic's economic performance under the three-year Extended Credit Facility (ECF) arrangement. The Board's completion of the reviews enables the immediate disbursement of an amount equivalent to SDR 19.028 million (about US$26.9 million). This would bring total disbursements under the arrangement to an amount equivalent to SDR 57.084 million (about US$80.7 million). The ECF arrangement for SDR 66.6 million (about US$94.2 million) was approved on April 8, 2015 (see Press Release No. 15/165).

Following the Executive Board discussion Mr. Tao Zhang, Deputy Managing Director and Acting Chair, made the following statement:

"The Kyrgyz economy is showing welcoming signs of recovery as the external environment is gradually improving. While significant risks remain, debt and financial sector vulnerabilities have subsided. The authorities are committed to prudent macroeconomic policies and implementation of structural reforms, and see them as essential to promoting higher and more inclusive growth and to increase economic resiliency.

"Fiscal consolidation remains essential to rebuild buffers and ensure debt sustainability. Consolidation should focus on increasing tax revenues by implementing permanent measures, such as broadening the tax base and strengthening the tax and custom administration. Rationalizing expenditures will also be needed, and involves reforming public wages, cutting subsidies, better targeting social benefits, and improving the public investment framework.

"Monetary policy remains appropriately focused on maintaining price stability. The National Bank of the Kyrgyz Republic (NBKR) should continue to pursue a two-way flexible exchange rate policy, and limit interventions only to smoothing the excessive volatility of the som. The envisaged transition to inflation targeting is welcome.

“To ensure a level playing field, the NBKR should refrain from taking equity positions in banks or investment entities. Further progress is needed in amending the Banking Law to strengthen NBKR independence and governance.

“The authorities are encouraged to swiftly resume their structural reform agenda, especially in public finance management to enhance public sector efficiency. Improving the business environment and fighting corruption will be essential to promote private sector-led growth.

“While the program is facing important domestic and external risks, including a slower regional recovery, reform slippages, and worsening of corresponding banking channels, the authorities remain firmly committed to implement the program and pursue policies to ensure a return to higher and more inclusive growth on a sustained basis.”

Kyrgyz Republic: Selected Social and Economic Indicators, 2016–22

	2016	2017	2018	2019	2020	2021	2022
	Est.	Projections					
Nominal GDP (in billions of soms)	458.0	488.7	523.6	570.5	619.2	668.3	727.2
Real GDP (growth in percent)	3.8	3.2	3.3	4.9	4.6	4.0	4.8
Nongold real GDP (growth in percent)	3.7	3.3	3.8	4.0	4.2	4.3	4.4
Consumer prices (12-month percent change, eop)	-0.5	3.2	5.5	5.2	5.1	5.0	5.0
Consumer prices (12-month percent change, average)	0.4	3.1	4.2	5.0	5.0	5.0	5.0
General government finances (in percent of GDP) 1/							
Revenue	34.7	38.5	35.1	33.4	33.3	34.1	34.0
Of which: Tax revenue	20.3	21.7	21.9	22.1	22.2	22.4	22.6
Expense	31.3	31.5	29.5	28.9	28.7	28.4	28.0
Gross operating balance	3.4	7.0	5.6	4.5	4.6	5.7	5.9
Net acquisition of nonfinancial assets	8.0	10.5	8.1	7.0	6.9	7.8	7.9
Overall balance (net lending/borrowing)	-4.6	-3.5	-2.5	-2.5	-2.3	-2.1	-1.9
Overall balance including onlending	-6.9	-5.9	-4.0	-5.3	-3.2	-2.6	-2.4
Total public debt 2/	58.1	57.1	58.2	58.4	56.2	55.0	53.2
Banking sector							
Reserve money (percent change, eop)	27.6	19.4	9.1	10.5	9.7	8.5	8.0
Broad money (percent change, eop)	14.6	16.5	13.2	12.2	11.4	9.4	9.3
Credit to private sector (percent change, eop)	-1.0	15.2	14.7	10.6	10.4	9.3	9.9
Credit to private sector (in percent of GDP)	20.8	22.5	24.1	24.5	24.9	25.2	25.5
External sector							
Current account balance (in percent of GDP)	-12.1	-10.0	-13.1	-12.2	-11.6	-11.1	-10.6
Export growth (percent change)	-0.9	10.4	6.2	14.4	10.8	7.6	11.4
Import growth (percent change)	-2.3	12.1	11.5	9.7	7.7	7.1	7.0
Gross International reserves (in millions of U.S. dollars)	1,777	1,886	1,848	2,082	2,354	2,613	2,861
Gross reserves (months of next year imports, eop)	4.0	3.8	3.4	3.5	3.7	3.9	4.0
External public debt outstanding (in percent of GDP)	56.6	54.5	55.8	56.1	54.1	53.1	51.5

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ General government comprises State Government and Social Fund finances. State government comprises central and local governments.
2/ Calculated at end-period exchange rates.

INTERNATIONAL MONETARY FUND

KYRGYZ REPUBLIC

December 4, 2017

FOURTH AND FIFTH REVIEWS UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

KEY ISSUES

Context. A moderate economic recovery is underway, driven by higher gold production, remittances, and growth in key trading partners. The recent tightening of controls on the border with Kazakhstan will have some limited impact on the economy this year but could weaken trade and growth substantially if it persists. Inflation is normalizing with the rise of food prices. The banking sector is showing signs of recovery but vulnerabilities remain. The October elections slowed reforms and put additional pressure on the budget, although the government has since taken offsetting measures. Public debt remains at moderate risk of distress, helped by som appreciation. The fourth review under the Extended Credit Facility (ECF) arrangement, which was originally scheduled to be completed in June, could not be completed on time. Since then, the authorities have taken corrective measures, which paved the way for moving forward with the combined fourth and fifth reviews.

Program policies. Program performance has been mixed. All end-December 2016 and end-June 2017 quantitative performance criteria, and all but three indicative targets (ITs) were met. The December 2016 IT on tax revenue, the continuous IT on introducing new or renewing existing tax exemptions, and the June 2017 IT on reserve money were not observed. Six structural benchmarks (SBs) were missed, of which five were proposed to be postponed or modified at the time of the fourth review. The authorities are requesting modification of performance criteria to reflect the revised macroeconomic outlook and that the fourth and fifth disbursements (SDR 19.028 million) be available upon completion of the reviews.

Outlook and risks. Resuming the reform agenda and pursuing consolidation efforts are essential to allow growth to reach its potential over the medium term. While the near-term outlook is improving, risks remain tilted to the downside amid the still fragile regional recovery. Growth is expected to rise toward its potential over the medium term, provided macroeconomic stability is maintained and structural reforms are pursued vigorously. These policy efforts are also key to rebuilding buffers against future shocks.

Approved By
Juha Kähkönen and Zeine Zeidane

Discussions were held in Bishkek during October 26 to November 8 with First Deputy Prime Minister Abdygulov, Minister of Finance Kasymaliev, Minister of Economy Novikov, Chairman of the National Bank Kulmatov, Head of the Financial and Economic Analysis and Monitoring Department at the President's Administration Ahmetova, other senior officials, and representatives of the diplomatic community. The staff team comprised Mr. Gemayel (head), Ms. Gicquel, Ms. Shi (all MCD), Mr. Csonto (SPR), Mr. Said (resident representative), and Ms. Kadyberdieva (local economist). Ms. Lagveshkina and Mr. Surin assisted with interpretation and translation services. Mr. Panek and Mr. Imashov (both OED) participated in some of the policy discussions. Mr. Sadeghi Emamgholi (MCD) provided research assistance. Administrative support was provided by Ms. Toshmuhamedova (MCD).

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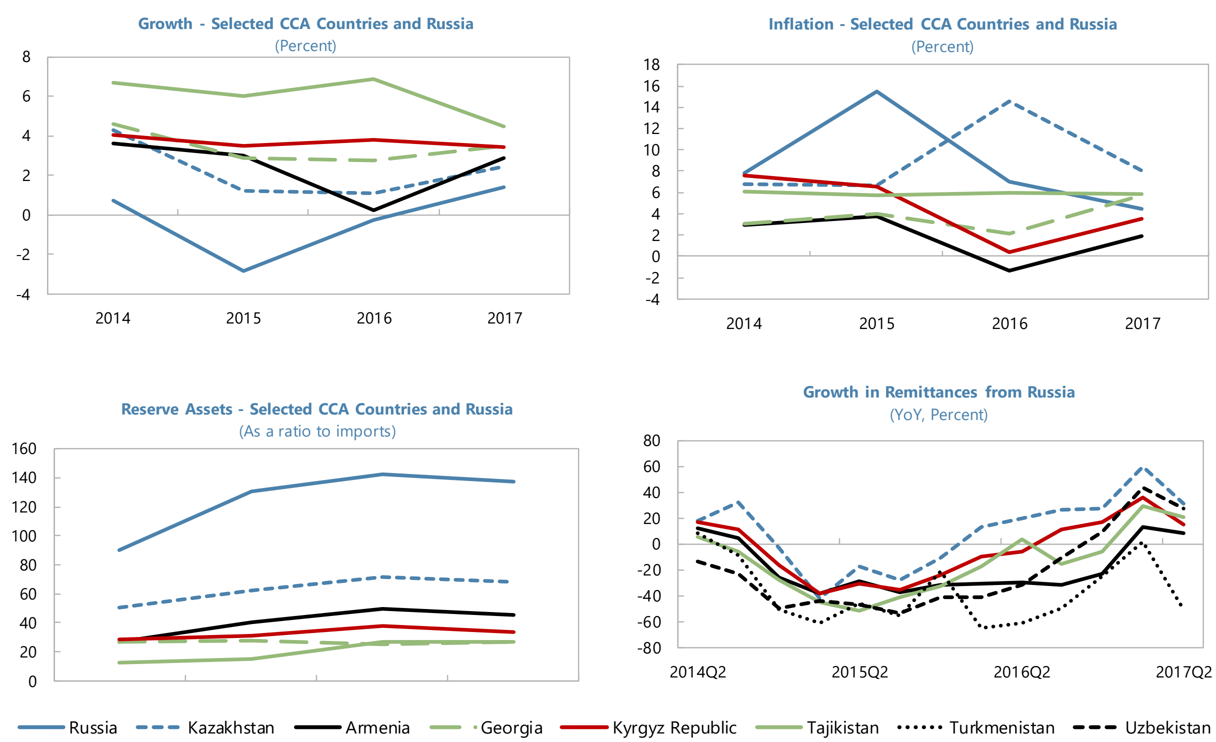
APPENDIX

RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

1. **The improving regional environment is boosting economic activity, although the border tension with Kazakhstan slowed trade and dampened activity in late 2017.** The economies of the main trading partners, Kazakhstan and Russia, are gradually recovering. The first nine months of 2017 saw strong growth of 5 percent (y/y) as front-loaded gold production increased from a low base, and the industry, trade, and construction sectors performed well. Non-gold GDP grew by 3.6 percent (y/y), supported by surging remittances and growing exports, which benefited from the regional recovery. However, the border tension with Kazakhstan, if not resolved soon, could have a significant economic impact (Annex I).

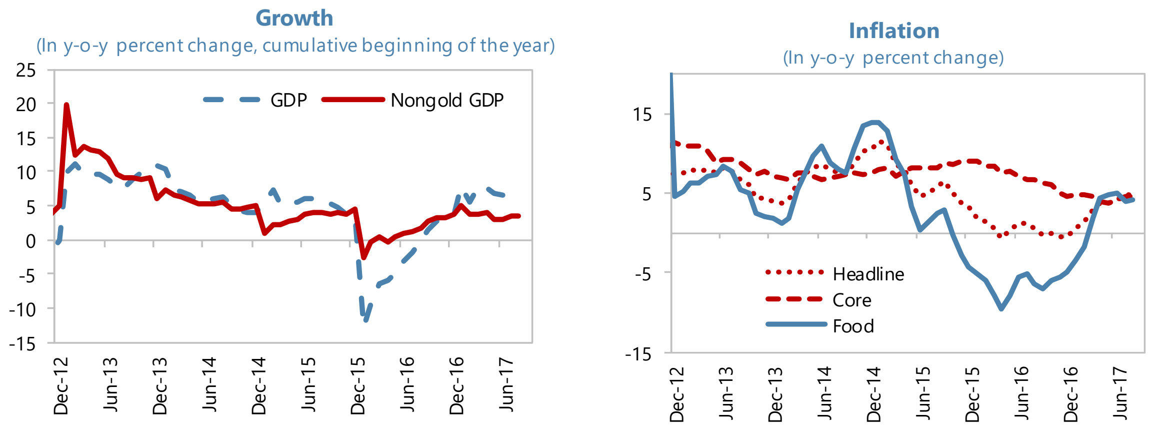
Figure 1. Kyrgyz Republic: Macroeconomic Indicators—Regional Comparators



Sources: Kyrgyz authorities and IMF staff estimate.

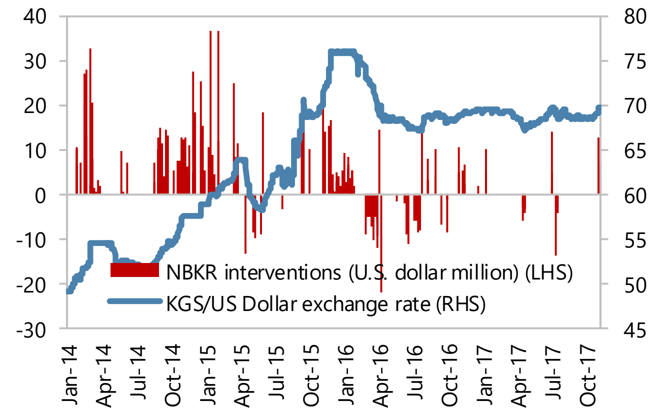
2. **Inflation is normalizing from the low level in 2016.** Headline inflation reached over 4 percent (y/y) in June before a mild som appreciation pushed it down in the summer. At end-October, headline inflation at 3.6 percent was still below the 5–7 percent target range of the National Bank of the Kyrgyz Republic (NBKR). Core inflation, however, has been steadily declining for the past one and half years, reflecting the lagged effect of the som appreciation in 2016.

Figure 2. Kyrgyz Republic: Growth and Inflation



Sources: Kyrgyz authorities and IMF staff estimate.

Foreign Exchange Market, 2014–17



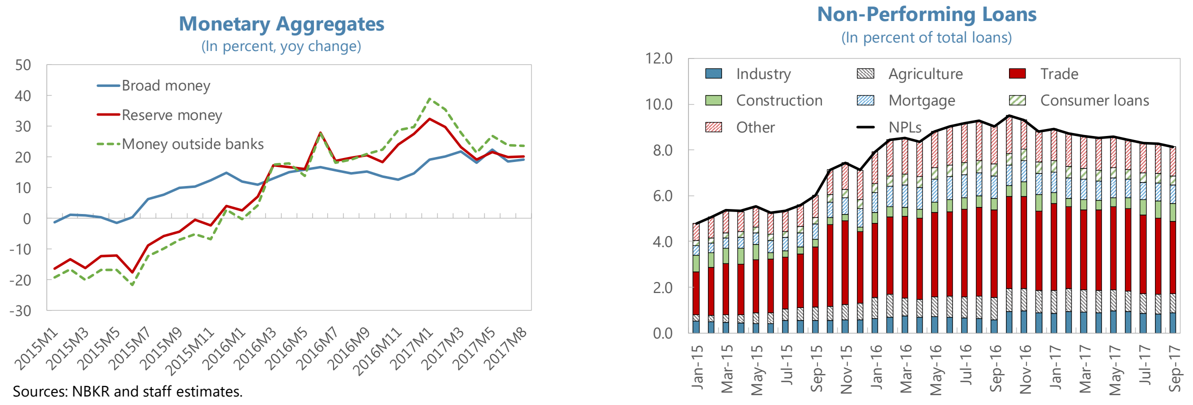
Sources: NBKR and IMF staff estimates.

3. **Reserve money continues to expand rapidly, but so far pressure on inflation and the exchange rate remains subdued.** The growth of reserve money, outpacing broad money, is largely accounted for by government spending, NBKR's FX, and gold-related transactions. The NBKR has maintained its policy rate at 5 percent since end-2016. The som was relatively stable until early November, when pressures emerged due to the uncertainty surrounding the border tension. Since then, the NBKR has sold close to \$30 million, compared to \$5 million during the first 10 months of the year.

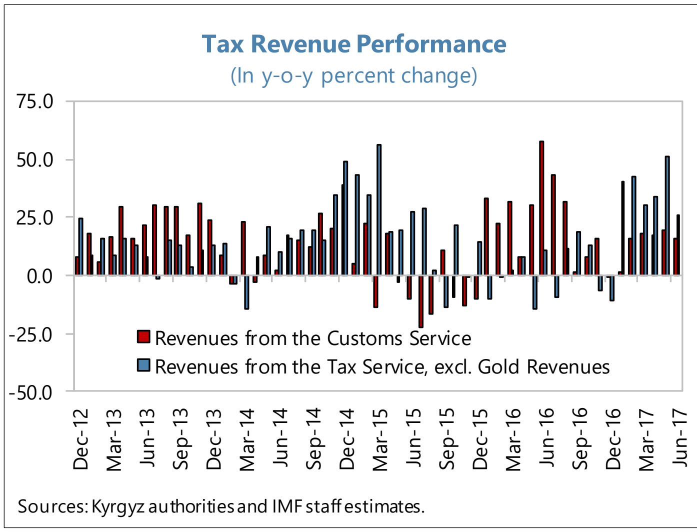
4. **Banking activity is picking up, but vulnerabilities remain.** Credit grew 15.2 percent in September (y/y), helping reduce the nonperforming loan (NPL) ratio to 8.1 percent.[1] Capital adequacy stood at 23.8 percent, almost twice as high as the minimum regulatory requirement (12 percent). All but one bank met the new capital requirement of som 500 million effective July 1. In September, loan and deposit dollarization were each 4 percentage points below the end-2016 level. Profitability remains low, with return on assets at 1.1 percent in September. The narrowing of correspondent banking relationships (CBRs), after the withdrawal of U.S. banks, continues to weigh on banks' activities.

[1] Restructured loans stood at 7.5 percent in September, of which 4.4 percent were prolonged loans, which are more susceptible to becoming non-performing.

Figure 3. Kyrgyz Republic: Monetary and Financial Sector Development



5. The fiscal deficit in 2017H1 was below the program level, reflecting one-off revenues. The fiscal deficit was 0.9 percent of GDP, compared to the programmed 3.6 percent of GDP. Revenues exceeded projections by 1.5 percent of GDP, mainly due to overperformance in non-tax revenue reflecting higher-than-expected proceeds from telecom court litigations. An unscheduled grant from Russia ($30 million, or 0.4 percent of GDP) in April also helped boost revenues. Both current and capital expenditures were in line with program projections.



6. Since then, spending initiatives ahead of the October presidential elections put the program's fiscal targets in jeopardy. The authorities announced a number of permanent (increases in wages and allowances) and one-off measures (infrastructure and disaster relief efforts) that, unless canceled or offset by other measures, would undermine medium-term fiscal sustainability (LOI, ¶8-9).

7. Following rapid increases in previous years, total external debt declined from 57 percent of GDP in 2016 to 54 percent in July. The sharp decline primarily reflects (i) the som appreciation; (ii) the rephrasing of public investment projects; and (iii) the write-off of Russian debt ($240 million).[2]

[2] The initial agreement between Russia and the Kyrgyz Republic signed in 2014 consisted of a write-off of a $300 million debt in equal tranches over a 10-year period. $60 million was written off in 2015–16. However, the agreement was revised earlier this year to write off the outstanding $240 million in 2017. As a result, the ratio of debt to GDP will drop by 3.7 percentage points. This reduction has no implication on the assessment of debt sustainability, given that the initial agreement did not envisage any debt service payment.

8. **The external position improved in 2017H1, driven by buoyant gold exports and the improving regional environment.** The current account deficit narrowed, mostly on the back of surging exports and remittances. Growth of exports (31 percent) far exceeded that of imports (8 percent). Remittances grew by 31 percent, driven by a recovery in Russia and better access of the Kyrgyz labor force to the Russian market following the accession to the Eurasian Economic Union (EEU). The real effective exchange rate appreciated, reflecting the nominal appreciation of the som vis-a-vis the U.S. dollar, ruble, and tenge.

9. **Performance under the program was mixed.**

- ***All end-December 2016 and end-June 2017 quantitative performance criteria, and all but three indicative targets (ITs) have been met.*** The December 2016 IT on tax revenue was missed due to the underperformance in tax collection, especially from the State Tax Services (STS). The continuous IT on introducing new or renewal of existing tax exemptions was also missed as VAT and profit tax exemptions for private schools and a personal income tax exemption for financial police staff were granted (totaling less than 0.1 percent of GDP). To show their commitment to refrain from further exemptions, the authorities agreed to convert this IT into a QPC. The June 2017 IT on reserve money was also missed due to rapid growth of cash outside banks.

- ***One structural benchmark (SB) is not being assessed and six SBs out of thirteen were missed.*** The end-July 2017 SB on submission of amendments to the Banking Law to Parliament is not being assessed for program purposes.[3] The SB on a comprehensive register of all employees of the general government was finalized in April with a one-month delay. The remaining five non-met SBs were proposed to be postponed or modified at the time of the forth review in June. These are (i) the liquidation of banks under Debt Enterprise Bank Resolution Agency (DEBRA), which could not be completed due to protracted litigation and needed to be reset to later dates;[4] (ii) the signing of the terms of reference for the Financial Management Information System (FMIS) project did not materialize, as the foreign partner retracted from the project; and as a result, (iii) the signing of the contract with the IT provider (end-September SB) was also missed; (iv) the identification of quantitative measures to reduce the wage bill (end-May SB) was completed with a one-month delay; and (v) the deadline for the SB on introducing a standardized framework for project monitoring of physical and financial performance for all projects exceeding som 50 million was proposed to be postponed to December 2017, to be in line with the new SB on developing the formal appraisal of all major projects.

[3] Complying with the component of the SB pertaining to judicial review and non-suspension of NBKR decisions was found unconstitutional. The authorities have also demonstrated that the component of the SB regarding the NBKR's powers in the resolution and liquidation process is addressed in the provisions of the current law. In view of these developments, the remaining components of the July 2017 SB have been reformulated into a prior action under which the authorities committed to reintroduce the key provisions on (i) governance and oversight, particularly to introduce majority of non-executive membership in the board of the NBKR; and (ii) lending to non-supervised institutions. The end-March 2018 SB on the enactment of these amendments has been revised accordingly.

[4] Out of the four banks, only "Kyrgyzagroprombank" was liquidated on time.

10. Following the October presidential elections, Mr. Sooronbai Jeenbekov became the fifth president of the Kyrgyz Republic. The newly elected President, was Prime Minister under President Atambayev and belongs to the ruling party, SDPK.

11. The fourth review under the ECF arrangement was not completed on time, but recently taken corrective measures have cleared the way for completing the fourth and fifth reviews. In June, the government did not roll back the VAT exemption on flour (prior action). Subsequently, new spending initiatives put the fiscal targets in jeopardy. In addition, the NBKR was planning to take an equity position in a new bank, which would create a conflict of interest, compromise central bank integrity as an impartial regulator, and detract from its key objective of ensuring macroeconomic stability. Since then, the authorities have committed to undertaking corrective measures, paving the way for completing the fourth and fifth reviews.

OUTLOOK AND RISKS

10. Near-term prospects are improving as the economies of the main trading partners are recovering, but resuming fiscal consolidation and reforms is crucial for sustainable medium-term growth. Non-gold growth is expected to slow to 3.3 percent this year mainly due to the tightening of controls at the Kazak border, but should rise gradually over the medium term as external demand picks up. However, growth will remain below historical norms barring major structural reforms, especially with respect to improving the business environment and promoting female labor force participation. Inflation is forecasted to be moderate this year and should stabilize at around 5 percent over the medium term. The fiscal deficit should drop to around 2 percent of GDP over the medium term, provided the authorities resume consolidation efforts as envisaged under the program. The current account deficit should narrow over the medium term, if two-way exchange rate flexibility and fiscal discipline are maintained.

11. The risks remain mostly tilted to the downside. A slowdown in China or economic setbacks in Russia or Kazakhstan could dampen external demand, remittances, and foreign-financed investment, and reduce the positive effects of EEU accession. The tension with Kazakhstan, if not resolved soon, could have significant adverse effects on the Kyrgyz economy and undermine EEU integration efforts. The narrowing of correspondent banking channels could further isolate the banking sector from the rest of the world and push economic activities into the informal sector. A loosening of fiscal discipline would put debt sustainability and price stability at risk. Backsliding on reforms could undermine fiscal sustainability and economic stability. The potential strengthening of the dollar would increase debt and banking sector vulnerabilities, which could weigh on credit and economic activity. Upside risks include higher growth in Russia, stronger economic relations with Uzbekistan (Annex II), and increased trade, investment, and financing from China.

12. The authorities broadly agreed with staff views on the outlook and risks. They agreed on the risks to the economy from their key trading partners. They expressed concerns about the potential consequences on the banking sector from the withdrawal of CBRs (LOI, ¶20).

PROGRAM ISSUES

A. Fiscal Consolidation Remains Essential

13. The consolidation initiated in 2016 was undermined by significant spending in the run-up to the October presidential elections. One-off expenditures, with a total cost of 3.7 percent of GDP in 2017, were undertaken. These included (i) road building; (ii) housing for law enforcement; and (iii) disaster and humanitarian relief for the April landslide in the south. Furthermore, the recent tightening of border controls with Kazakhstan is expected to result in 0.2 percentage point in forgone revenues.

14. Despite these slippages, the authorities are committed to a 2017 deficit target of 3.5 percent of GDP. The initial deficit commitment for this year was 3 percent of GDP, but the authorities requested, and staff agreed, to relax it to accommodate the rehabilitation efforts following the April landslide in the south and the impact of the tightening of border controls with Kazakhstan. To meet this target, the authorities (i) have identified one-off revenues (unbudgeted dividends and litigation receipts); (ii) will cut some non-priority expenditures and domestically-financed investments; and (iii) will save the unscheduled September grant received from Russia (0.4 percent of GDP). While the 2017 supplementary budget features a deficit of 4.3 percent of GDP, the authorities are committed to cut spending on non-priority goods and services to meet the end-year target.

Budget Deviations and Compensatory Measures
(In percent of GDP)

	2017	2018
Proposed deficit target	3.5	2.5
Deficit target under the third review	3.0	1.6
Deviations:		
One-off expenditures	3.7	0.0
Permanent expenditures	0.0	2.0
External factors:		
April landslide	0.7	...
Tightening with Kazak border	0.2	...
Compensatory measures		
Additional Fiscal measures		2.0
Cut in non-priority spending and domestically financed capital expenditures	3.7	...
Russian grant	0.4	...

Sources: Kyrgyz authorities and IMF staff estimate.

15. Pre-election fiscal initiatives also included permanent measures, which could jeopardize debt sustainability, if not reversed. These initiatives, with a total annual cost of about 2 percent of GDP, include (i) the adoption of a universal child allowance; (ii) ad-hoc measures to increase pensions and wages for certain categories of public sector employees; (iii) the continuation of the VAT exemption on wheat and flour; and (iv) various tax exemptions and subsidies for private schools, export producers, and capital investment in remote areas. Unless reversed or offset with other measures, these initiatives would threaten debt sustainability.

16. Cognizant of this risk, the authorities agreed to reduce the 2018 deficit to sustainable levels. The government had submitted in early October to Parliament a draft budget featuring a deficit of 3.8 percent of GDP compared to a commitment of 1.6 percent of GDP at the time of the third review. The authorities noted that the permanent measures adopted this year could not be reversed given a weaker than expected domestic economic environment and that these measures were initiated by Parliament. Staff pointed out that these measures, unless reversed or offset, could result in a deficit as high as 4.5 percent of GDP, which would have serious consequences on medium-term debt sustainability. In the end, the authorities and staff agreed to relax the 2018 deficit to 2.5 percent of GDP (LOI, ¶9). Notwithstanding this relaxation, the cyclically-adjusted balance would still improve by 2.1 percentage points.

17. To meet the 2018 deficit target, staff underscored the importance of refraining from implementing any of the permanent measures unless offsetting permanent deficit reducing measures have been identified. In this context, the authorities and staff agreed on the following:

- **a. Revenues:** (i) amending the tax code to revoke the VAT exemption on wheat and flour effective January 1, 2018 (prior action); (ii) submitting to Parliament proposals on tax policy (LOI, Table 3), including eliminating exemptions, raising excise taxes, and expanding the tax base, totaling 0.4 percent of GDP (SB, January 2018); (iii) preparing an analysis of the 20 largest exemptions in terms of revenue impact on the budget, including concrete measures to streamline them (SB, February 2018); (iv) refraining from introducing new exemptions or renewing expiring one (continuous QPC); and (v) increasing non tax revenue, including increasing the share of NBKR profits to the government from 70 to 90 percent (LOI, Table 3).

- **b. Wage bill:** reducing the wage bill to 9 percent of GDP in 2018 by (i) conducting a headcount analysis prior to adopting the relevant government decision or resolution to cut the ceiling for state and local administrative staff and subordinated institutions by 10 percent to be implemented by September 2018 (SB, March 2018) (LOI, ¶9); (ii) containing support staff; (iii) eliminating redundant or ineffective state entities; (iv) saving rather than distributing as bonus unused wage allocations; (v) limiting wages, bonuses, and allowances' growth to inflation; and (vi) refraining from ad-hoc salary increases.

- **c. Goods and services:** containing spending on goods and services by (i) implementing e- procurement; (ii) tightening the financing of local budgets by recovering unused funds to the government; and (iii) refraining from quasi-fiscal activities that may have budgetary implications.

- **d. Transfers:** introducing some elements of targeting to the recently adopted universal child allowance law, which is costly and biased against the poor, by submitting to Parliament amendments to the law (SB, May 2018).

- **e. Subsidies:** adopting a new medium-term tariff strategy to restore the financial sustainability of the energy sector by adjusting the prices for all energy users starting in 2018 (SB, March 2018) (LOI ¶9).

- **f. Tax administration:** (i) improving tax collection efficiency by introducing an electronic system for trade transactions (e-invoicing, e-labelling, e-patents, and online cash registers); (ii) continuing simplification of tax payment and e-reporting; and (iii) installing service centers to track imported EEU goods to improve indirect tax administration.

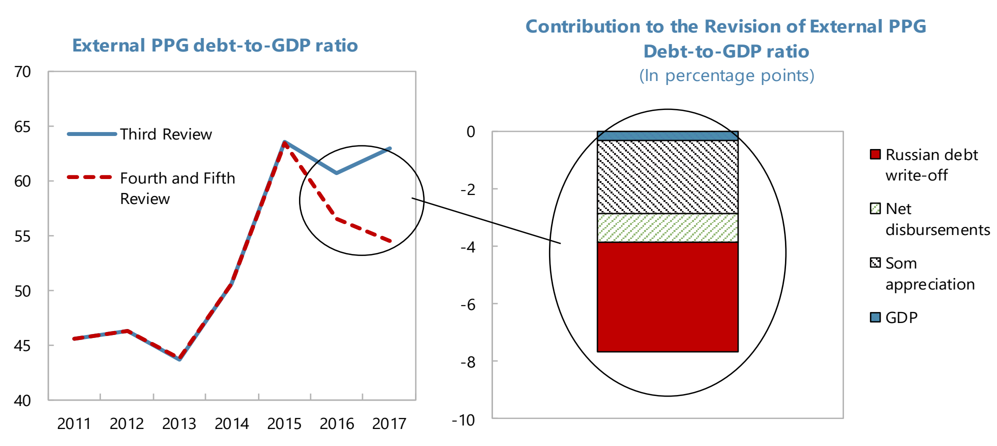
- **g.** Given that some of the above measures—about 0.3 percent of GDP—require Parliamentary approval, the authorities agreed to cut non-priority goods and services and domestically financed capital expenditures to meet the deficit target, if needed.

B. Preserving Debt Sustainability

18. While debt sustainability has improved, it remains vulnerable to external and domestic shocks. Compared to the third review, debt-to-GDP ratio is now lower as a result of the Russian debt write-off and the som appreciation (Figure 4). External public and publicly guaranteed (PPG) debt is expected to level off at around 56 percent in 2019 and then gradually decline toward 50 percent in the medium term provided appropriate policies are implemented. Overall, debt remains at a moderate risk of debt distress, as vulnerabilities continue to persist, especially regarding the depreciation of the som and/or a deterioration in the fiscal balance, including from scaling-up of public investments. The adoption of a new fiscal rule in early 2018 anchored around a fiscal deficit ceiling of 3 percent of GDP and a debt ceiling of 60–65 percent of GDP will ensure fiscal sustainability.[5]

19. The authorities agreed with staff's assessment and reiterated their commitment to preserve debt sustainability through both fiscal consolidation and the implementation of structural reforms. To that effect, they will (i) pursue fiscal consolidation efforts over the medium term; (ii) refrain from non-concessional borrowing; (iii) improve debt monitoring; (iv) minimize fiscal risks stemming from state-owned enterprises (SOEs) by enhancing coordination between the Ministry of Finance (MoF) and the State Property Fund; and (v) enhance the efficiency of public sector investments by implementing the public investment management assessment (PIMA) recommendations. As part of the latter, they plan to introduce a standardized framework (SB, December 2017) and develop a framework for the formal appraisal for all externally and domestically financed projects (exceeding som 50 million) prior to selection, with the nature of the appraisal tailored to the size of the project and sector (SB, December 2017).

Figure 4. Kyrgyz Republic: Contribution to the Revision of External Debt



Sources: Kyrgyz authorities and IMF staff estimate.

[5] The fiscal rule will be anchored around a debt ceiling, which would place a cap on the level of public debt and thus directly controls the main factor in ensuring fiscal sustainability. In addition, it will also have an operational target in the form of a deficit ceiling (general government fiscal deficit including net investment by the government in SOEs). Since debt and deficit ceilings may lead to procyclicality, a notional control account for deviations from the deficit ceiling—and associated automatic correction mechanism—should allow for small fluctuations around the deficit ceiling. Also, a well-specified escape clause should provide for the suspension of the rule under exceptional circumstances.

C. Finetuning Monetary and Exchange Rate Policies

20. With inflation below the NBKR's target, staff agreed that the current monetary policy stance was prudent. However, considering the recent pickup in reserve money and inflation, the NBKR should closely monitor developments and stand ready to finetune its monetary policy accordingly. Staff also underscored the importance of maintaining the policy rate positive in real terms. The NBKR reiterated its key objective of maintaining price stability (LOI, ¶13) and that it will continue to contain inflation within the 5–7 percent range.

21. Efforts are needed to improve the monetary transmission mechanism (LOI, ¶14). Staff emphasized the importance of strengthening the effectiveness of the policy rate by (i) withdrawing the excess liquidity to a level that provides sufficient incentive for interbank trading; (ii) gradually narrowing the corridor around the policy rate and making it more symmetric; and (iii) developing the domestic securities market and establishing a benchmark yield curve jointly with the MoF. The NBKR pointed out that it continues to improve its modeling capacity and communication strategy, and expressed interest in Fund technical assistance (TA), including assistance in developing monetary instruments based on Islamic principle.

22. Exchange rate flexibility is key to reducing external imbalances, preserving competitiveness, and safeguarding international reserves. The authorities and staff agreed on the need to maintain two-way exchange rate flexibility and limit interventions solely to smoothing excessive fluctuations (LOI, ¶15). Reserves, currently at 3.8 months of imports and expected to be slightly lower in 2018 as imports recover, are above levels based on metrics for flexible exchange rate regimes and credit-constrained economies. Given the high level of financial dollarization and the economy's vulnerability to external shocks, staff stressed the importance of building up reserves to around four months of imports in the medium term. Staff also encouraged the NBKR to introduce new monetary instruments to balance the effect of its FX interventions on the money supply, and develop hedging instruments to address exchange rate risks. The NBKR agreed, but thought that more time was needed to introduce these instruments (LOI, ¶14).

23. The external position is assessed as moderately weak, with the som slightly overvalued vis-à-vis fundamentals. While the sudden depreciation of the som at end-2015 lowered the exchange rate misalignment temporarily, the som appreciation vis-à-vis main trading partners' currencies since 2016—partially fueled by the strong recovery in remittances—resulted in a moderately overvalued real effective exchange rate. In the medium term, the gradual recovery of regional demand should help improve the external position. The authorities and staff agreed that continued fiscal consolidation and exchange rate flexibility will be critical to achieve this goal.

D. Safeguarding the Financial Sector

24. Conditions in banks are gradually improving, but the sector continues to face challenges. The narrowing of correspondent banking channels has made it increasingly difficult for local banks to carry out dollar-denominated transactions (LOI, ¶20). Staff indicated that the Fund can help raise awareness and foster coordinated actions at the multinational level, but stressed that it is also incumbent on the authorities to strengthen the domestic legal framework and enhance implementation capacity. In this context, the timely enactment of the AML/CFT Law in line with international standards would be crucial. Staff also encouraged the NBKR to closely monitor the double-digit credit growth, in particular risks of overheating and the trend of the NPLs. While noting staff's cautious stance, the NBKR clarified that recent credit growth reflects recovering demand, relatively loose liquidity conditions, and initiatives that provide preferential lending in som (LOI, ¶13).[6]

25. To be able to adequately address these challenges, the NBKR continues its reform efforts to strengthen its supervisory framework (LOI, ¶16). Transition to risk-based supervision (RBS) is underway, and a new group of bank supervisors is being established. Inspection is expected to be expanded to three more banks by end-2017. Moreover, changes to the organizational structure of the NBKR, to better adapt to the requirement of RBS, is under consideration. The NBKR is making recommendations to prepare commercial banks for the new international reporting standard (IFRS9), supported by Fund TA. As a step to operationalize the crisis preparedness framework, the list of systemically important banks and their recapitalization procedures are expected to be soon approved by the NBKR board. The NBKR continues to finetune its stress test methodology and publishes the results regularly in its financial stability report.

26. Staff emphasized the importance of maintaining a level playing field among market players. Staff and the NBKR concurred that given its significant size, the RKDF should be carefully monitored. Staff urged the NBKR to take all necessary measures to enforce the minimum capital requirement of som 500 million to all banks without exception (LOI, ¶17). In line with international best practice and to avoid a conflict of interest, the NBKR agreed to refrain from assuming an equity position in a commercial bank or any other entity involved in lending or investment activities (LOI, ¶17).

27. The authorities reiterated their commitment to amend the Banking Law. Previously prepared amendments were rejected by the Ministry of Justice on constitutionality grounds with respect to provisions in the proposed amendments regarding the limitation of judicial review. It was agreed to drop these provisions and other provisions in the proposed amendments relating to the NBKR's powers in the resolution and liquidation process, which are already addressed in the current law. The authorities committed to resubmit to Parliament by early December the remaining amendments (prior action) pertaining to (i) governance and oversight, particularly to introduce majority of non-executive membership in the board of the NBKR; and (ii) lending to non-supervised institutions. The NBKR also agreed to exert every effort to have these amendments enacted by March (SB, March 2018), while noting that it has no control over Parliament's decision.

28. Other financial reforms are experiencing delays. Protracted litigation and ongoing asset freezes continue to prevent the three remaining banks under DEBRA's management from being liquidated. Hence, new deadlines have been agreed to submit to the court the liquidation request for "AUB" bank by February 2018 (SB, LOI, ¶18), and for "Manas" and "Issyk-Kul" banks by May 2018 (SB, LOI, ¶18). The draft AML/CFT Law was recently withdrawn from Parliament as the responsible review

[6] These initiatives include (i) a subsidized program to support agriculture sponsored by the government; (ii) subsidized lending under the affordable housing program of the state mortgage company; and (iii) the preferential loans provided by the RKDF to small- and medium-size enterprises through banks.

committee issued a negative opinion, arguing that measures in the draft law would raise costs to businesses and weaken the business climate. The State Financial Intelligence Services now plans to resubmit the draft AML/CFT Law in March (SB, LOI, ¶19), after revising it to address Parliament's comments. Staff emphasized that diluting the essence of this critical law would have a negative impact on the country's compliance with the Financial Action Task Force (FATF) standard and on efforts to address pressures on CBRs. The adopted law should take into account the findings of the recent AML/CFT assessment and appropriately cover preventive measures related to politically-exposed persons, regulation and supervision of designated non-financial institutions, and transparency of legal persons.

E. Structural Reforms

29. While Public Financial Management (PFM) reforms have been progressing slowly, they are essential to promote efficiency in the public sector, fight corruption, and enhance governance.[7] Taza Koom, the authorities' national strategy for sustainable development, promotes the transition to a digital economy, which should support PFM reforms (Annex III). A significant portion of additional spending carried out in 2017 was based on a loose interpretation of the Budget Code and articles in the 2017 Budget Law, allowing extra-budgetary spending simply by obtaining the consent of the budget committee in Parliament. The law also allowed the government to shift resources between budget chapters at will. To address this, the authorities agreed to amend the 2018 Budget Law to remove these articles (prior action). The authorities also agreed to amend the Budget Code to include a fiscal rule to provide an anchor to their fiscal policy and to clarify the rules for intra-year additional spending and the allocation of resources within the budget envelope (SB, March 2018). With the withdrawal of the foreign financing from the FMIS project, the authorities are experiencing a serious delay in setting up an information system. However, they remain committed to completing the FMIS project with their own resources and to the preparation of the terms of reference for the FMIS, including the human resources module (LOI, ¶11). In addition, to enhance the efficiency of public sector asset management, the authorities carried out a stocktaking exercise of SOEs and joint stock companies (JSCs), and streamlined them from over 200 SOEs in 2016 to 105 currently. The authorities plan to draw a roadmap to improve management of the remaining SOEs and JSCs.

30. The decentralized budget process complicates consolidation efforts. Budget responsibilities are divided among several actors. The Ministry of Economy (MoE) is responsible for the tax policy and PIP selection, the MoF for the budget execution and current spending, and the Prime Minister for tax collection (through the STS, State Customs Service, and the social fund). More coordination is needed to increase the efficiency and consistency of the budget process. Whereas staff would have preferred that the tax policy unit be integrated within the MoF as was the case previously, the authorities argued that having this unit in the MoE makes it better attuned to the needs of the business community. The authorities agreed to analyze the institutional responsibilities for tax policy design and implementation toward increasing coherence and accountability (LOI, ¶11).

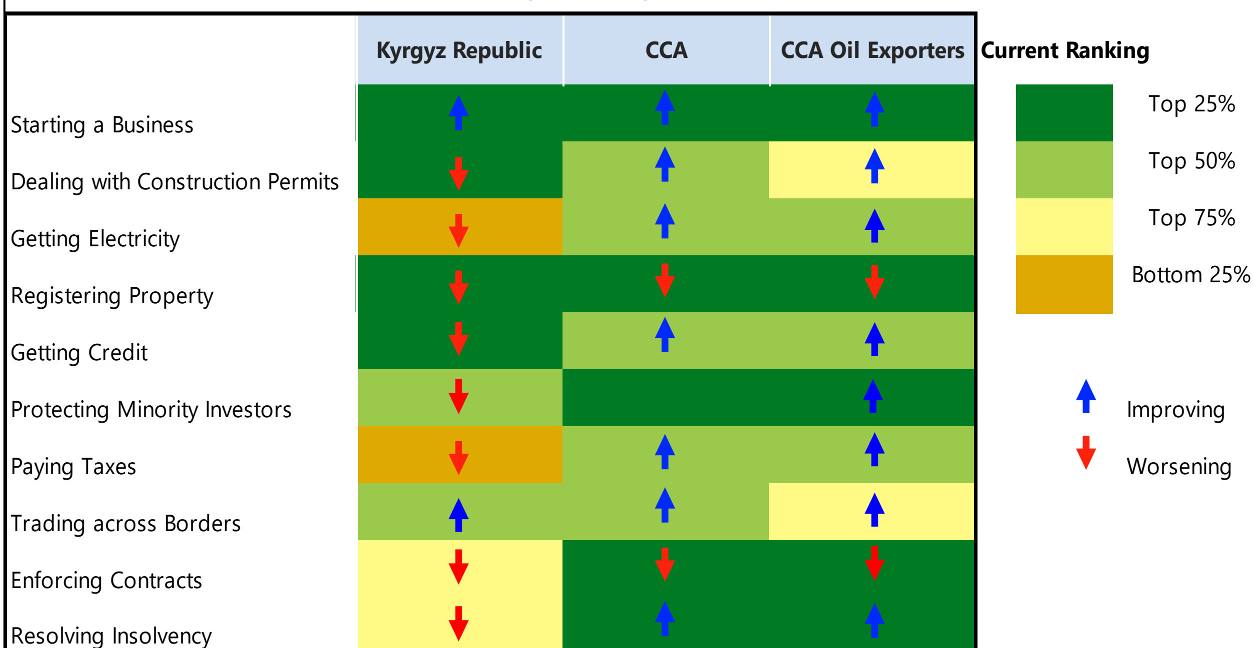
[7] See also International Monetary Fund, 2017, Selected Issues "Improving Governance to Support More Inclusive Growth and Prosperity in the Kyrgyz Republic", IMF Country Report (Washington).

31. The benefits from the Procurement Law should be safeguarded. Amendments to the Procurement Law have been proposed, which could significantly weaken the law that was adopted in April 2015 in line with international best practices. The authorities ensured their intention to safeguard the benefits of the new law, by introducing changes to these amendments, currently under consideration in Parliament (prior action) (LOI, ¶11).

32. The authorities continue their efforts to reduce poverty. Progress has been made towards implementing the measures envisaged under the 2013–17 poverty reduction strategy (Annex IV). Over the longer term, reversing the widening gender gap in labor force participation could help boost growth and reduce poverty (Annex V). Staff encouraged the authorities to consider the gender aspect when designing tax and social policies. Staff also emphasized the importance of avoiding measures that could give disincentives to women to participate in the labor market, such as the recently adopted universal child allowance. Enhancing the business environment remains critical to promote private sector-led growth. Further efforts need to be carried on to improve governance and fight corruption.[8]

Ease of Doing Business 2018

(Current ranking and change in distance to frontier)



Source: World Bank 2018 Doing Business Report.

F. Program Modalities

33. Program design and modification of performance criteria (LOI, Table 1). Modifications of QPCs for December 2017 are proposed for the floor on NIR, ceiling on NDA, the ceiling on cumulative overall deficit of the general government, and the present value of new external debt contracted or guaranteed. The ceiling for new or renewal of existing tax exemptions is proposed to

[8] International Monetary Fund, 2017, Selected Issues "Improving Governance to Support More Inclusive Growth and Prosperity in the Kyrgyz Republic", IMF Country Report (Washington).

be converted from an IT to a QPC. The debt issued by the RKDF is proposed to be excluded from debt conditionality as the RKDF was not assessed as an external creditor for program purposes. Revisions for December 2017 and new March 2018 ITs are also proposed on the ceiling on reserve money and the cumulative state government tax collections. The proposed changes reflect the updated macroeconomic outlook.

34. The program will continue to be monitored on a semi-annual basis. The sixth review will be based on continuous and end- December 2017 QPCs and ITs. Structural conditionality (LOI, Table 2) will focus on macro-critical areas, especially on rationalizing expenditures, pursuing PFM reforms, and ensuring financial sector stability.

Kyrgyz Republic: Balance of Payments Financing, 2017–18

	2017 Proj.	2018 Proj.
	(In millions of U.S. dollars)	
Financing Gap	84.2	80.9
Available financing	57.8	67.5
Identified budget support	57.8	67.5
World Bank	11.3	16.6
European Union	14.5	25.9
Other grants	32.0	25.0
Unidentified budget support	0.0	0.0
IMF ECF disbursement	26.4	13.4
	(In percent of GDP)	
Financing gap	1.2	1.1
Available financing	0.8	0.9
Identified budget support	0.8	0.9
World Bank	0.2	0.2
European Union	0.2	0.4
Other grants	0.5	0.3
Unidentified budget support	0.0	0.0
IMF ECF disbursement	0.4	0.2
Memo item:		
GDP (in millions of U.S. dollars)	7,090	7,309

Sources: Kyrgyz authorities and IMF staff estimates and projections.

35. Financing needs for 2017 and 2018 are covered. The IMF, along with multilateral and bilateral partners, is expected to cover the country's financing gap for this year and 2018. Despite downside risks to the outlook, the Kyrgyz Republic's capacity to repay the Fund is expected to remain adequate.

36. An updated safeguard assessment was completed in October 2015. The assessment concluded that legal amendments were needed to strengthen governance and autonomy of the central bank. The timely passage of the necessary amendments to the Banking Law will strengthen the independence of the NBKR.

STAFF APPRAISAL

37. The economic recovery, the improved regional environment, and the end of the political season provide an opportunity to correct recent slippages, rebuild buffers, and resume stalled reforms. As the economy enters its seventh consecutive quarter of recovery, growth is spreading to most sectors, buoyed by rising remittances, recovering external demand from key trading partners, and good weather. Recent tensions with Kazakhstan have dented growth, highlighting the need to prepare for future shocks by rebuilding fiscal buffers and strengthening the financial sector. Difficult structural reforms should be resumed to increase resilience and ensure sustainable and broad based growth.

38. In addition to filling the gaps left by pre-election spending, fiscal sustainability will hinge on resolving long standing weaknesses in revenue collections, the public sector wage bill, energy subsidies, and social transfers. Measures to fill the gaps should focus on identified areas to broaden the tax base, streamline exemptions, rationalize the public sector wage bill and energy subsidies and better target social transfer programs to assist the most vulnerable.

39. Favorable external dynamics offer an opportunity to strengthen the monetary and exchange rate policy framework. Increased remittances and gold exports have shored up the current account balance, foreign exchange reserves, and the national currency. Together with relatively low food and energy prices they have kept inflation in check despite the increase in economic activity. The recent increase in fuel prices and the tensions at the border with Kazakhstan are a reminder for the NBKR to remain vigilant and stand ready to adjust course. Two-way exchange rate flexibility, which proved helpful during the 2014–15 crisis, should be maintained and complemented by a more effective monetary policy with greater traction. The current benign environment offers an opportunity to develop and introduce new monetary instruments, and improve forecasting, communication, and coordination with other agencies.

40. As credit accelerates, it is essential to detect and address imbalances early, and ensure an open competitive environment for all market participants. Following an extended period of flat activity and dwindling margins, the banking sector is experiencing a credit boom. Despite good capitalization, NPLs remain a concern. The NBKR should continue the rollout of risk-based supervision and bolster the crisis preparedness framework working with other government agencies. In this context, amendments to the Banking Law should be enacted to strengthen the NBKR's governance. Also, the NBKR should refrain from any activity which could detract from its ability to provide a favorable regulatory environment and a level playing field for all market participants.

41. Growth will fall short of expectations unless structural reforms are accelerated. The Kyrgyz Republic continues to lag compared to its peers in key business climate and competitiveness indicators. Persistent challenges in rule of law, enforcement of contracts, access to electricity, and paying taxes remain unresolved. The government's ambitious medium-term agenda for broad and sustainable growth hinges on the resumption of structural reforms in public finance management, including (i) public investment management; (ii) product markets, particularly energy and infrastructure; and (iii) the labor market, particularly female participation.

42. A flagging reform momentum and ad-hoc fiscal initiatives combined with issues with key trading partners are the key risks to the program. Tensions on the border with Kazakhstan, if not resolved soon, could constitute a significant shock on both the supply (fuel, grain, construction materials) and demand sides (agricultural products, textiles, remittances). Internal risks stem from the faltering reform momentum and the possible continuation of populist policies. Continued dialogue with the Fund is essential for the success of the program, along with the commitment to adjust policies as needed to achieve the program's objectives.

43. Staff supports completing the fourth and fifth reviews of the authorities' program under the ECF arrangement. Staff also supports the authorities' request for modification of end-December 2017 QPCs and ITs and for setting new end-March ITs.

Table 1. Kyrgyz Republic: Selected Economic Indicators, 2015–22

I. Social and Demographic Indicators

Population (in millions, 2017)	6.0	GINI Index (2015)	29.0
Unemployment rate (official, 2015)	7.6	Life expectancy at birth in years (2015)	70.7
Poverty rate (2015)	32.1	Adult literacy rate (percent of population, 2015)	99.5
GNI per capita (2016, Atlas method, U.S. dollars)	1100	Under-five mortality (per 1000 live births) (2016)	21.1

II. Economic Indicators

	2015	2016	2017		2018		2019	2020	2021	2022
	Act.	Est.	3rd review	Proj.	3rd review	Proj.				
Nominal GDP (in billions of soms)	430.5	458.0	486.2	488.7	518.5	523.6	570.5	619.2	668.3	727.2
Nominal GDP (in millions of U.S. dollars)	6,678	6,551	6,768	7,090	7,085	7,309	7,732	8,154	8,545	9,027
Real GDP (growth in percent)	3.5	3.8	2.3	3.2	2.9	3.3	4.9	4.6	4.0	4.8
Nongold real GDP (growth in percent)	4.5	3.7	2.8	3.3	3.5	3.8	4.0	4.2	4.3	4.4
GDP per capita (in U.S. dollars)	1,109	1,067	1,092	1,132	1,127	1,144	1,186	1,227	1,260	1,305
Consumer prices (12-month percent change, eop)	3.4	-0.5	4.7	3.2	5.5	5.5	5.2	5.1	5.0	5.0
Consumer prices (12-month percent change, average)	6.5	0.4	5.2	3.1	5.2	4.2	5.0	5.0	5.0	5.0
Investment and savings (in percent of GDP)										
Investment	34.3	32.9	32.2	33.4	32.7	31.9	33.2	30.3	30.9	31.3
Public 1/	9.0	10.7	13.1	13.7	11.7	10.7	12.6	8.8	8.8	8.8
Private	25.2	22.2	19.1	19.7	21.0	21.1	20.6	21.6	22.1	22.5
Savings	18.3	20.8	18.6	23.3	19.0	18.7	21.0	18.8	19.8	20.7
Public	5.0	2.6	9.5	3.8	11.5	3.6	2.8	3.3	4.5	4.8
Private	13.3	18.2	9.1	19.5	7.5	15.1	18.2	15.5	15.3	15.9
Savings-investment balance	-16.0	-12.1	-13.6	-10.0	-13.8	-13.1	-12.2	-11.6	-11.1	-10.6
General government finances (in percent of GDP) 2/										
Revenue	35.6	34.7	36.3	38.5	35.4	35.1	33.4	33.3	34.1	34.0
Of which: Tax revenue	19.1	20.3	21.9	21.7	22.1	21.9	22.1	22.2	22.4	22.6
Expense	30.1	31.3	30.5	31.5	29.7	29.5	28.9	28.7	28.4	28.0
Gross operating balance	5.5	3.4	5.7	7.0	5.7	5.6	4.5	4.6	5.7	5.9
Net acquisition of nonfinancial assets	6.7	8.0	8.7	10.5	7.2	8.1	7.0	6.9	7.8	7.9
Overall balance(net lending/borrowing)	-1.2	-4.6	-3.0	-3.5	-1.6	-2.5	-2.5	-2.3	-2.1	-1.9
Overall balance excluding foreign financed PIP loans	1.3	-1.4	3.1	2.5	2.6	2.7	1.6	1.2	2.4	2.4
Overall balance including onlending	-3.1	-6.9	-6.2	-5.9	-4.0	-4.0	-5.3	-3.2	-2.6	-2.4
Primary net lending/borrowing	-0.2	-3.4	-1.7	-2.3	-0.4	-1.2	-1.3	-1.0	-0.9	-0.7
Primary balance excluding foreign financed PIP loans	2.3	-0.3	4.4	3.8	3.8	4.0	2.8	2.5	3.7	3.6
Primary balance excluding grants	-2.4	-5.6	-5.6	-7.1	-3.1	-4.8	-3.3	-2.4	-2.1	-1.8
Primary balance excluding grants and foreign financed PIP loans	0.1	-2.5	0.5	-1.1	1.1	0.4	0.8	1.0	2.5	2.5
Cyclically adjusted balance	-3.6	-7.0	-5.9	-5.6	-3.3	-3.5	-2.5	-2.4	-2.2	-2.2
Cyclically adjusted balance excluding foreign financed PIP loans and grants	-1.7	-4.7	-3.0	-2.7	-0.7	-0.3	-0.1	-0.2	1.2	1.0
Total public debt 3/	64.9	58.1	64.2	57.1	65.5	58.2	58.4	56.2	55.0	53.2
Banking sector										
Reserve money (percent change, eop)	4.0	27.6	9.7	19.4	9.3	9.1	10.5	9.7	8.5	8.0
Broad money (percent change, eop)	14.9	14.6	12.5	16.5	10.9	13.2	12.2	11.4	9.4	9.3
Credit to private sector (percent change, eop) 4/	17.4	-1.0	11.2	15.2	14.1	14.7	10.6	10.4	9.3	9.9
Credit to private sector (in percent of GDP) 4/	22.4	20.8	22.3	22.5	23.9	24.1	24.5	24.9	25.2	25.5
Velocity of broad money 5/	3.0	2.8	2.6	2.6	2.5	2.4	2.4	2.3	2.3	2.3
Policy Rate	10.0	5.0	...	...	...	...	...	...	...	...
External sector										
Current account balance (in percent of GDP)	-16.0	-12.1	-13.6	-10.0	-13.8	-13.1	-12.2	-11.6	-11.1	-10.6
Export of goods and services (in millions of U.S. dollars)	2,472	2,449	2,812	2,703	2,969	2,870	3,285	3,638	3,915	4,363
Export growth (percent change)	-26.9	-0.9	6.0	10.4	5.6	6.2	14.4	10.8	7.6	11.4
Import of goods and services (in millions of U.S. dollars)	4,901	4,789	5,249	5,370	5,545	5,986	6,565	7,074	7,578	8,110
Import growth (percent change)	-24.8	-2.3	10.4	12.1	5.6	11.5	9.7	7.7	7.1	7.0
Gross International reserves (in millions of U.S. dollars) 6/	1,468	1,777	1,745	1,886	1,856	1,848	2,082	2,354	2,613	2,861
Gross reserves (months of next year imports, eop)	3.7	4.0	3.8	3.8	3.8	3.4	3.5	3.7	3.9	4.0
External public debt outstanding (in percent of GDP)	63.5	56.6	63.0	54.5	64.4	55.8	56.1	54.1	53.1	51.5
External public debt service-to-export ratio (in percent)	5.3	5.9	5.5	5.9	6.1	6.6	6.2	6.0	6.1	6.3
Memorandum items:										
Exchange rate (soms per U.S. dollar, average)	64.5	69.9	...	...	...	...	...	...	...	...
Real effective exchange rate (2010=100) (average)	106.0	102.2	...	...	...	...	...	...	...	...
Gold related tax receipts of the general government (in percent of GDP)	1.4	1.2	...	...	...	...	...	...	...	...

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Includes general government and onlending to state owned enetrprises

2/ General government comprises State Government and Social Fund finances. State government comprises central and local governments.

3/ Calculated at end-period exchange rates.

4/ Excluding direct lending of the Russia-Kyrgyz Development Fund for 2016.

5/ Twelve-month GDP over end-period broad money.

6/ The US$263 million of reserve assets in nonconvertible currencies were reclassified to other assets at the end-2015 upon the recommendation of the Safeguards Assessment.

Table 2. Kyrgyz Republic: Balance of Payments, 2015–22

(In millions of U.S. dollars)

	2015	2016	2017	2018	2019	2020	2021	2022
	Act.	Est.			Proj.			
Current account balance 1/	-1,069	-792	-712	-959	-946	-942	-951	-958
Excluding transfers	-2,687	-2,696	-3,008	-3,471	-3,658	-3,856	-4,099	-4,248
Trade balance	-2,241	-2,137	-2,472	-2,959	-3,147	-3,336	-3,607	-3738
Exports, fob	1,619	1,608	1,720	1,798	2,118	2,368	2,525	2850
CIS countries	712	639	699	778	858	946	1,053	1174
Of which: Energy products	180	50	61	68	73	81	88	92
Of which: Re-exports of consumer goods	136	50	54	60	66	73	81	91
Non-CIS countries	907	969	1,021	1,020	1,261	1,422	1,472	1677
Of which: Gold	665	702	708	679	888	1,014	1,018	1176
Imports, fob	3,860	3,744	4,192	4,757	5,265	5,704	6,133	6588
CIS countries	2,177	1,639	1,863	2,097	2,282	2,502	2,708	2923
Of which: Energy (including for re-exports)	830	467	570	636	692	759	827	871
Non-CIS countries	1,683	2,106	2,329	2,660	2,983	3,202	3,425	3665
Of which: Goods for re-exports	106	40	43	48	53	58	65	73
Services	-188	-204	-195	-156	-134	-100	-56	-10
Receipts	853	841	983	1,073	1,166	1,270	1,390	1512
Payments	-1,041	-1,045	-1,178	-1,229	-1,300	-1,370	-1,446	-1522
Income	-258	-356	-341	-355	-377	-420	-437	-501
Interest payments	-66	-68	-103	-114	-125	-140	-140	-160
Other net income	-192	-288	-238	-241	-252	-280	-297	-341
Current Transfers (net)	1,618	1,904	2,295	2,512	2,712	2,914	3,148	3290
Of which: Private	1,515	1,820	2,181	2,400	2,640	2,903	3,150	3292
Capital Account	83	88	246	164	152	122	122	122
Official	58	74	246	164	152	122	122	122
Private	26	14	0	0	0	0	0	0
Financial account	391	574	305	773	1,056	1,119	1,104	1096
Commercial banks	-152	58	0	0	0	0	0	0
Medium- and long-term loans (net)	178	87	189	210	386	419	375	294
Disbursement 1/	799	688	645	644	780	855	945	1007
Of which: Loan financed PIP (excl. energy investments financed by China)	95	53	118	162	260	77	170	233
Of which: Energy investments financed by China (PIP)	154	258	249	179	139	181	158	97
Amortization	-621	-601	-456	-434	-394	-437	-571	-713
Foreign direct investment 2/	1,009	579	375	462	570	600	630	672
Portfolio investment	-129	-7	0	0	0	0	0	0
Other (including SDR allocation) 3/	-263	0	0	0	0	0	0	30
Net short-term flows	-252	-143	-259	100	100	100	100	100
Errors and omissions	263	422	0	0	0	0	0	0
Overall balance	-332	292	-161	-22	262	299	275	260
Financing 4/	332	-292	161	22	-262	-299	-275	-260
Net international reserves	332	-322	-135	9	-262	-299	-275	-260
Gross official reserves (–, increase)	320	-309	-110	38	-234	-272	-259	-247
IMF	11	-13	-26	-29	-28	-27	-16	-13
Exceptional financing (including arrears)	0	30	270	0	0	0	0	0
Financing gap	0	0	26	13	0	0	0	0
Memorandum items:								
GDP (in millions of U.S. dollars)	6,678	6,551	7,090	7,309	7,732	8,154	8,545	9027
Current account balance (percent of GDP)	-16.0	-12.1	-10.0	-13.1	-12.2	-11.6	-11.1	-10.6
Current account balance excluding official transfers (percent of GDP) 1/	-17.5	-13.4	-11.7	-14.7	-13.2	-11.7	-11.1	-10.6
Growth of exports of GNFS (volume, percent)	-19.1	-0.8	4.6	5.3	12.7	9.0	5.1	9
Growth of imports of GNFS (volume, percent)	-10.7	4.9	5.8	11.2	9.0	7.2	5.1	5
Terms of trade (goods, percentage change)	7.8	5.5	-2.0	0.2	0.2	0.3	-0.5	-1
Gold price (U.S. dollars per ounce)	1,160	1,248	1,254	1,291	1,314	1,337	1,360	1384
Fuel Price Index (2005=100)	97.7	81.6	95.7	95.0	95.0	95.4	96.8	
External Public Debt (in millions of U.S. dollars) 5/	3,601	3,742	3,772	4,017	4,279	4,350	4,474	4577
As percent of GDP	63.5	56.6	54.5	55.8	56.1	54.1	53.1	51.5
External public debt service-to-exports ratio 5/ 6/	5.3	5.9	5.9	6.6	6.2	6.0	6.1	6.3
Gross reserves 3/ 7/	1,468	1,777	1,886	1,848	2,082	2,354	2,613	2861
In months of subsequent year's imports	3.7	4.0	3.8	3.4	3.5	3.7	3.9	4.0

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Includes IMF and identified budget support.

2/ Includes return of RKDF investments abroad.

3/ The US$263 million of reserve assets in non-convertible currencies were reclassified to other assets at the end-2015 upon the recommendation of the Safeguards Assessment.

4/ Projected IMF financing.

5/ Public and publicly-guaranteed debt.

6/ Net of rescheduling.

7/ Valued at end-period exchange rates. The discrepancy between the difference in year-end stocks and the change in reserves under financing is caused by movements in prices and exchange rates.

Table 3. Kyrgyz Republic: NBKR Accounts, 2015–18

	2015	2016	2017				2018			
	Dec. Act.	Dec. Act.	Mar. Act.	Jun. Act.	Sep. Act.	Dec. Proj.	Mar. Proj.	Jun. Proj.	Sep. Proj.	Dec. Proj.
	(In millions of soms)									
Net foreign assets	123,167	126,837	125,694	130,966	136,474	138,443	132,780	138,727	138,350	145,536
Net international reserves 1/	108,490	121,250	120,166	125,461	130,513	132,483	126,819	132,766	132,389	139,575
Long-term foreign liabilities	-8,929	-7,864	-7,953	-8,053	-8,221	-8,221	-8,221	-8,221	-8,221	-8,221
Other foreign assets 1/	23,606	13,451	13,481	13,558	14,182	…	…	…	…	…
Net domestic assets	-56,112	-41,253	-44,108	-38,534	-38,114	-36,289	-32,466	-33,819	-31,726	-34,037
Net claims on general government	-13,714	-7,747	-11,021	-10,517	-9,260	-6,067	-3,734	-600	-1,978	-3,961
Of which: Total government deposits (including foreign exchange deposits)	-15,105	-8,049	-11,328	-10,820	-9,569	-6,369	-4,040	-903	-2,286	-4,263
Of which: Securitized government debt	1,402	313	317	314	319	313	317	314	319	313
Claims on commercial banks	-2,204	-10,993	-13,324	-8,894	-6,343	-5,062	-330	-2,279	-1,067	-1,561
Of which: NBKR notes	-2,126	-5,243	-4,279	-3,507	-6,263	-3,386	-826	-3,055	-3,800	-3,253
Claims of other financial corporations	-4,364	-1,585	-364	-647	-508	-438	-402	-1,119	-1,840	-2,604
Other items net	-35,829	-20,927	-19,400	-18,476	-22,003	-24,722	-28,001	-29,822	-26,841	-25,912
Reserve money	67,055	85,584	81,586	92,432	98,359	102,155	100,314	104,908	106,624	111,499
Currency in circulation	58,398	74,839	72,885	82,893	87,771	92,348	89,680	93,787	94,256	98,565
Commercial banks' reserves	8,657	10,745	8,701	9,540	10,588	9,807	10,633	11,120	12,368	12,934
Of which: Required reserves	8,225	7,244	7,203	7,446	7,876	7,845	8,507	8,896	9,895	10,347
	(Contribution to reserve money growth, in percent) 2/									
Net foreign assets	28.5	5.5	-1.3	4.8	11.3	13.6	-5.5	0.3	-0.1	6.9
Net domestic assets	-24.5	22.2	-3.3	3.2	3.7	5.8	3.7	2.4	4.5	2.2
Of which: Net claims on general government	6.9	8.9	-3.8	-3.2	-1.8	2.0	2.3	5.4	4.0	2.1
Reserve money	4.0	27.6	-4.7	8.0	14.9	19.4	-1.8	2.7	4.4	9.1
Of which: Currency in circulation	2.1	24.5	-2.3	9.4	15.1	20.5	-2.6	1.4	1.9	6.1
Memorandum items:										
Reserve money growth (12-month change, in percent)	4.0	27.6	23.3	21.8	22.6	19.4	23.0	13.5	8.4	9.1
Gross International Reserves (in millions of U.S. dollars) 1/	1,468	1,776	1,777	1,834	1,920	…	…	…	…	…
Net international reserves (in millions of U.S. dollars) 1/	1,429	1,751	1,752	1,815	1,901	1,877	1,783	1,853	1,835	1,920
Exchange rate, som per U.S. dollar, end of period	75.9	69.2	68.6	69.1	68.7	…	…	…	…	…

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ The US$263 million of reserve assets in nonconvertible currencies were reclassified to other assets at the end-2015 upon the recommendation of the Safeguards Assessment.

2/ Contribution is defined as change of asset stock relative to previous end-year reserve money stock (in percent).

Table 4. Kyrgyz Republic: Monetary Survey, 2015–18

	2015	2016	2017				2018			
	Dec.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.
	Act.	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In millions of soms)									
Net foreign assets	134,276	136,028	135,543	139,392	148,520	150,490	144,826	150,773	150,397	157,582
Net domestic assets	8,867	27,989	29,343	36,453	37,613	40,621	50,652	53,797	60,720	58,725
Domestic credit	79,408	85,425	84,513	92,535	97,976	102,851	112,423	119,224	121,920	120,645
Net claims on general government	-17,021	-10,019	-11,935	-11,577	-10,106	-7,107	-4,392	-377	-1,873	-5,474
Credit to the rest of the economy 1/	96,430	95,444	96,449	104,112	108,082	109,958	116,816	119,601	123,793	126,119
Of which: In foreign exchange	51,726	41,699	41,704	42,590	42,146	42,768	45,318	46,279	47,840	48,676
Other items net	-70,542	-57,435	-55,171	-56,082	-60,363	-62,230	-61,772	-65,428	-61,200	-61,920
Broad money (M2X)	143,143	164,017	164,886	175,845	186,133	191,111	195,478	204,570	211,116	216,308
Of which:										
Broad money, excluding foreign exchange deposits (M2)	82,267	115,444	115,841	128,039	136,287	141,204	142,405	149,117	152,805	157,496
Currency held by the public	53,118	69,339	67,669	76,589	81,403	85,810	83,260	87,073	87,432	91,429
Total domestic currency deposit liabilities	29,149	46,105	48,172	51,450	54,884	55,394	59,144	62,044	65,373	66,067
	(Contribution to broad money growth, in percent) 2/									
Net foreign assets	20.6	1.2	-0.3	2.1	7.6	8.8	-3.0	0.1	0.0	3.7
Net domestic assets	-5.7	13.4	0.8	5.2	5.9	7.7	5.2	6.9	10.5	9.5
Domestic credit	14.5	4.2	-0.6	4.3	7.7	10.6	5.0	8.6	10.0	9.3
Net claims on general government	3.1	7.1	-1.2	-0.9	-0.1	1.8	1.4	3.5	2.7	0.9
Credit to the rest of the economy	11.5	-0.7	0.6	5.3	7.7	8.8	3.6	5.0	7.2	8.5
Other items (net)	-20.2	9.2	1.4	0.8	-1.8	-2.9	0.2	-1.7	0.5	0.2
Broad money (M2X)	14.9	14.6	0.5	7.2	13.5	16.5	2.3	7.0	10.5	13.2
Of which:										
Broad money, excluding foreign exchange deposits (M2)	-0.1	23.2	0.2	7.7	12.7	15.7	0.6	4.1	6.1	8.5
Currency held by the public	1.0	11.3	-1.0	4.4	7.4	10.0	-1.3	0.7	0.8	2.9
Total deposit liabilities	-1.1	23.5	1.3	3.3	5.4	5.7	2.0	3.5	5.2	5.6
Memorandum items:										
Broad money (M2X) (12-month change, in percent)	14.9	14.6	21.7	19.8	19.1	16.5	18.6	16.3	13.4	13.2
Credit to the rest of the economy (12-month change, in percent) 1/	17.4	-1.0	2.7	12.7	15.2	15.2	21.1	14.9	14.5	14.7
Credit growth FX portion in dollar terms (12-month change, in percent)	-11.7	-11.6	-2.3	5.7	3.9	...	...	...	...	...
Credit growth FX portion in som term(12-month change, in percent)	13.8	-19.4	-3.4	6.7	5.4	...	...	...	...	...
Credit growth som protion (12-month change, in percent)	21.9	20.2	8.0	17.3	22.6	...	...	...	...	...
Real credit growth, (12-month change, in percent)	13.4	-0.6	1.2	8.8	12.0	...	...	...	...	...
Credit growth in constant exchange rate—DEC 2013 (12-month change, in percent)	4.7	6.5	4.1	13.1	16.0	...	...	...	...	...
Credit to the rest of the economy (in percent of GDP)	22.4	20.8	19.6	21.2	22.0	22.4	22.1	23.1	23.9	24.6
M2X velocity 3/	3.0	2.8	2.8	2.6	2.5	2.6	2.7	2.6	2.5	2.4
M2X multiplier	2.1	1.9	2.0	1.9	1.9	1.9	1.9	2.0	2.0	1.9
Dollarization indicators (in percent)										
Loan dollarization	53.6	43.7	43.2	40.9	39.0	38.9	38.8	38.7	38.6	38.6
Deposit dollarization	67.6	51.3	50.4	48.2	47.6	47.4	47.3	47.2	47.1	47.1

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ One MFI got banking license in March 2015, and another in January 2016. It also includes RKDF's lending via banks.

2/ Contribution is defined as change of asset stock relative to previous end-year broad money stock (in percent).

3/ Twelve-month GDP over end-period broad money.

Table 5. Kyrgyz Republic: General Government Finances, 2015–18
(In millions of soms)

	2015	2016	2017					2018				
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
	Act.	Prel.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue 1/	153,333	158,889	39,537	48,713	42,022	58,045	188,318	36,243	43,394	45,428	58,537	183,603
Taxes	82,234	92,929	21,968	24,531	25,874	33,729	106,102	21,496	24,681	30,370	38,166	114,712
Taxes on income, profits, and capital gains	21,773	22,253	6,113	5,946	6,981	9,572	28,611	6,996	6,343	7,587	10,168	31,095
Payable by individuals	9,514	10,594	2,475	2,604	4,514	8,906	18,500	4,682	4,245	5,077	6,804	20,808
Payable by corporations and other enterprises	9,813	9,034	2,959	2,647	2,391	480	8,478	1,849	1,774	1,918	3,256	8,797
Other income taxes	2,446	2,624	678	694	76	186	1,634	465	325	592	107	1,489
Taxes on property	2,286	2,495	693	540	579	562	2,374	579	525	628	842	2,574
Property Tax	1,332	1,505	384	307	313	280	1,284	310	281	336	450	1,376
Land Tax	954	990	309	233	266	282	1,089	270	244	292	392	1,198
Taxes on goods and services	48,486	54,369	11,778	13,988	13,951	21,594	61,311	12,290	15,063	17,131	20,659	65,143
General taxes on goods and services	40,729	45,311	10,130	11,565	11,167	18,061	50,923	10,266	12,645	13,923	16,336	53,170
Value-added taxes	33,221	39,297	9,129	10,646	8,494	12,576	40,845	8,000	10,074	11,048	13,207	42,330
Excises	7,757	9,059	1,648	2,423	2,784	3,533	10,388	2,023	2,419	3,209	4,322	11,973
Taxes on international trade and transactions	9,684	13,809	3,382	4,058	4,271	1,721	13,431	1,530	2,658	4,914	6,351	15,452
Other Taxes	4	3	3	-1	91	280	374	101	91	109	147	448
Social contributions	24,106	26,558	6,194	6,770	6,874	8,467	28,305	7,232	7,617	7,051	7,553	29,453
Grants	9,262	10,098	3,276	6,162	5,345	8,775	23,558	3,466	4,871	2,644	7,743	18,724
Program grants	6,830	6,321	69	2,520	1,791	3,602	7,983	917	2,303	57	5,136	8,414
Project grants 2/	2,432	3,777	3,207	3,641	3,554	5,173	15,575	2,549	2,568	2,587	2,606	10,310
Other revenue	37,731	29,303	8,098	11,251	3,930	7,074	30,353	4,049	6,225	5,363	5,076	20,714
Expense	129,500	143,344	33,158	40,916	35,761	44,354	154,188	33,744	39,688	35,008	46,034	154,474
Compensation of employees	39,612	44,836	9,960	13,595	10,010	13,551	47,117	10,655	14,116	9,035	13,542	47,348
Wages and salaries	35,103	39,716	8,833	11,955	8,880	12,117	41,785	9,471	12,547	8,032	12,036	42,087
Social contributions	4,509	5,121	1,126	1,640	1,131	1,434	5,332	1,184	1,569	1,003	1,505	5,262
Purchases/use of goods and services	30,529	33,634	6,077	9,511	9,032	13,369	37,990	3,822	5,157	4,980	10,111	24,069
Consumption of fixed capital	0	0	0	0	0	0	0	0	0	0	0	0
Interest	4,061	5,125	1,382	1,457	1,799	1,462	6,100	1,727	1,597	2,002	1,681	7,008
Foreign interest	2,786	3,355	838	838	1,158	820	3,653	1,196	917	1,297	903	4,313
Domestic interest	1,274	1,770	545	619	641	641	2,446	531	680	706	778	2,695
Subsidies	3,518	4,566	1,622	1,248	734	127	3,731	988	998	951	948	3,885
To public corporations	3,518	4,566	1,622	1,248	734	127	3,731	988	998	951	948	3,885
To private entities	0	0	0	0	0	0	0	0	0	0	0	0
Grants	256	493	101	73	113	288	575	142	144	137	136	559
To foreign governments	0	0	0	0	0	0	0	0	0	0	0	0
To international organizations	256	493	101	73	113	288	575	142	144	137	136	559
To other general government units	0	0	0	0	0	0	0	0	0	0	0	0
Social benefits	51,524	54,688	14,015	15,032	14,072	15,557	58,676	16,410	17,676	17,903	19,617	71,606
Social Assistance	10,847	11,155	2,570	2,943	2,562	4,942	13,018	5,772	5,831	5,556	5,536	22,696
Social security benefits	40,677	43,534	11,444	12,088	11,511	10,615	45,658	10,637	11,846	12,347	14,081	48,910
Gross operating balance	23,832	15,545	6,379	7,797	6,262	13,692	34,129	2,499	3,707	10,420	12,503	29,129
Net acquisition of nonfinancial assets	28,836	36,442	7,625	10,912	11,643	21,267	51,447	9,076	10,604	11,056	11,687	42,422
Acquisition of nonfinancial assets	28,978	36,592	7,645	10,924	11,672	21,343	51,583	9,112	10,642	11,092	11,722	42,567
Domestically financed	18,327	22,278	1,311	4,944	6,144	9,591	21,990	2,295	3,825	4,275	4,905	15,300
Foreign financed 2/	10,650	14,314	6,334	5,980	5,528	11,752	29,593	6,817	6,817	6,817	6,817	27,267
Disposals of nonfinancial assets	-142	-150	-19	-12	-28	-76	-136	-36	-38	-36	-35	-145
Net lending/borrowing	-5,003	-20,897	-1,246	-3,115	-5,382	-7,575	-17,318	-6,577	-6,897	-636	817	-13,293
Net acquisition of financial assets	4,504	4,444	5,855	-212	1,473	2,676	9,792	-341	-1,149	3,371	3,964	5,844
Domestic	4,504	4,444	5,855	-212	1,473	2,676	9,792	-341	-1,149	3,371	3,964	5,844
Currency and deposits	-3,645	-6,489	3,145	-1,238	-2,682	-606	-1,381	-2,210	-3,019	1,501	2,095	-1,633
Loans	8,163	10,933	2,748	1,064	4,192	3,319	11,322	1,873	1,873	1,873	1,873	7,492
Sales of equity (privatization proceeds)	-13	0	-38	-38	-38	-38	-150	-4	-4	-4	-4	-15
Foreign	0	0	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	12,327	21,322	5,955	3,660	4,848	12,646	27,110	6,236	5,748	4,006	3,147	19,137
Domestic	-933	1,127	1,479	1,656	35	2,393	5,564	500	1,000	0	-1,500	0
Foreign	13,261	20,195	4,476	2,004	4,813	10,253	21,545	5,736	4,748	4,006	4,647	19,137
Program loans	1,812	4,334	0	0	0	1,817	1,817	1,100	240	358	240	1,938
Public investment program loans	16,048	21,708	5,889	3,359	6,163	9,929	25,340	6,112	6,112	6,112	6,112	24,449
Amortization	-4,599	-5,848	-1,413	-1,356	-1,350	-1,493	-5,611	-1,476	-1,605	-2,464	-1,705	-7,250

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Mineral fees have been classified under other revenue since the third review under the ECF. They were previously classified under taxes.

2/ Including grants in-kind from EEU accession.

Table 6. Kyrgyz Republic: General Government Finances, 2015–18

(In percent of GDP)

	2015	2016	2017					2018				
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
	Act.	Prel.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue 1/	35.6	34.7	8.1	10.0	8.6	11.9	38.5	6.9	8.3	8.7	11.2	35.1
Taxes	19.1	20.3	4.5	5.0	5.3	6.9	21.7	4.1	4.7	5.8	7.3	21.9
Taxes on income, profits, and capital gains	5.1	4.9	1.3	1.2	1.4	2.0	5.9	1.3	1.2	1.4	1.9	5.9
Payable by individuals	2.2	2.3	0.5	0.5	0.9	1.8	3.8	0.9	0.8	1.0	1.3	4.0
Payable by corporations and other enterprises	2.3	2.0	0.6	0.5	0.5	0.1	1.7	0.4	0.3	0.4	0.6	1.7
Other income taxes	0.6	0.6	0.1	0.1	0.0	0.0	0.3	0.1	0.1	0.1	0.0	0.3
Taxes on property	0.5	0.5	0.1	0.1	0.1	0.1	0.5	0.1	0.1	0.1	0.2	0.5
Taxes on goods and services	11.3	11.9	2.4	2.9	2.9	4.4	12.5	2.3	2.9	3.3	3.9	12.4
General taxes on goods and services	9.5	9.9	2.1	2.4	2.3	3.7	10.4	2.0	2.4	2.7	3.1	10.2
Value-added taxes	7.7	8.6	1.9	2.2	1.7	2.6	8.4	1.5	1.9	2.1	2.5	8.1
Turnover and other taxes on goods and services	1.7	1.3	0.0	0.0	0.0	0.0	2.1	0.0	0.0	0.0	0.0	2.1
Excises	1.8	2.0	0.3	0.5	0.6	0.7	2.1	0.4	0.5	0.6	0.8	2.3
Taxes on international trade and transactions	2.2	3.0	0.7	0.8	0.9	0.4	2.7	0.3	0.5	0.9	1.2	3.0
Other Taxes	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.1
Social contributions	5.6	5.8	1.3	1.4	1.4	1.7	5.8	1.4	1.5	1.3	1.4	5.6
Grants	2.2	2.2	0.7	1.3	1.1	1.8	4.8	0.7	0.9	0.5	1.5	3.6
Program grants	1.6	1.4	0.0	0.5	0.4	0.7	1.6	0.2	0.4	0.0	1.0	1.6
Project grants 2/	0.6	0.8	0.7	0.7	0.7	1.1	3.2	0.5	0.5	0.5	0.5	2.0
Other revenue	8.8	6.4	1.7	2.3	0.8	1.4	6.2	0.8	1.2	1.0	1.0	4.0
Expense	30.1	31.3	6.8	8.4	7.3	9.1	31.5	6.4	7.6	6.7	8.8	29.5
Compensation of employees	9.2	9.8	2.0	2.8	2.0	2.8	9.6	2.0	2.7	1.7	2.6	9.0
Wages and salaries	8.2	8.7	1.8	2.4	1.8	2.5	8.5	1.8	2.4	1.5	2.3	8.0
Social contributions	1.0	1.1	0.2	0.3	0.2	0.3	1.1	0.2	0.3	0.2	0.3	1.0
Purchases/use of goods and services	7.1	7.3	1.2	1.9	1.8	2.7	7.8	0.7	1.0	1.0	1.9	4.6
Consumption of fixed capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.9	1.1	0.3	0.3	0.4	0.3	1.2	0.3	0.3	0.4	0.3	1.3
Foreign interest	0.6	0.7	0.2	0.2	0.2	0.2	0.7	0.2	0.2	0.2	0.2	0.8
Domestic interest	0.3	0.4	0.1	0.1	0.1	0.1	0.5	0.1	0.1	0.1	0.1	0.5
Subsidies	0.8	1.0	0.3	0.3	0.2	0.0	0.8	0.2	0.2	0.2	0.2	0.7
To public corporations	0.8	1.0	0.3	0.3	0.2	0.0	0.8	0.2	0.2	0.2	0.2	0.7
To private entities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.1	0.1	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.1
To foreign governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
To international organizations	0.1	0.1	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.1
To other general government units	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social benefits	12.0	11.9	2.9	3.1	2.9	3.2	12.0	3.1	3.4	3.4	3.7	13.7
Social assistance	2.5	2.4	0.5	0.6	0.5	1.0	2.7	1.1	1.1	1.1	1.1	4.3
Social security benefits	9.4	9.5	2.3	2.5	2.4	2.2	9.3	2.0	2.3	2.4	2.7	9.3
Other Expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating balance	5.5	3.4	1.3	1.6	1.3	2.8	7.0	0.5	0.7	2.0	2.4	5.6
Net acquisition of nonfinancial assets	6.7	8.0	1.6	2.2	2.4	4.4	10.5	1.7	2.0	2.1	2.2	8.1
Acquisition of nonfinancial assets	6.7	8.0	1.6	2.2	2.4	4.4	10.6	1.7	2.0	2.1	2.2	8.1
Domestically financed	4.3	4.9	0.3	1.0	1.3	2.0	4.5	0.4	0.7	0.8	0.9	2.9
Foreign financed 2/	2.5	3.1	1.3	1.2	1.1	2.4	6.1	1.3	1.3	1.3	1.3	5.2
Disposals of nonfinancial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending/borrowing	-1.2	-4.6	-0.3	-0.6	-1.1	-1.5	-3.5	-1.3	-1.3	-0.1	0.2	-2.5
Net acquisition of financial assets	1.0	1.0	1.2	0.0	0.3	0.5	2.0	-0.1	-0.2	0.6	0.8	1.1
Domestic	1.0	1.0	1.2	0.0	0.3	0.5	2.0	-0.1	-0.2	0.6	0.8	1.1
Currency and deposits	-0.8	-1.4	0.6	-0.3	-0.5	-0.1	-0.3	-0.4	-0.6	0.3	0.4	-0.3
Loans	1.9	2.4	0.6	0.2	0.9	0.7	2.3	0.4	0.4	0.4	0.4	1.4
Sales of equity (privatization proceeds)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	2.9	4.7	1.2	0.7	1.0	2.6	5.5	1.2	1.1	0.8	0.6	3.7
Domestic	-0.2	0.2	0.3	0.3	0.0	0.5	1.1	0.1	0.2	0.0	-0.3	0.0
Foreign	3.1	4.4	0.9	0.4	1.0	2.1	4.4	1.1	0.9	0.8	0.9	3.7
Program loans	0.4	0.9	0.0	0.0	0.0	0.4	0.4	0.2	0.0	0.1	0.0	0.4
Public investment program loans	3.7	4.7	1.2	0.7	1.3	2.0	5.2	1.2	1.2	1.2	1.2	4.7
Amortization	-1.1	-1.3	-0.3	-0.3	-0.3	-0.3	-1.1	-0.3	-0.3	-0.5	-0.3	-1.4

Sources: Kyrgyz authorities and IMF staff estimates and projections.

1/ Mineral fees have been classified under other revenue since the third review under the ECF. They were previously classified under taxes.

2/ Including grants in-kind from EEU accession.

Table 7. Kyrgyz Republic: Selected Financial Soundness Indicators, 2015–17

	Dec-15	Dec-16	Mar-17	Jun-17	Sep-17
Capital Adequacy					
Regulatory capital to risk weighted assets	22.4	24.7	25.1	24.0	23.8
Tier 1 capital to risk weighted assets	18.1	21.1	22.5	21.1	20.3
Capital to total assets	15.6	16.8	16.8	16.8	16.7
Liquidity					
Liquidity ratio	77.8	75.4	73.7	64.4	65.8
Excess reserves/total reserves	3.2	17.6	8.6	12.8	18.0
Asset quality					
Nonperforming loans/total loans	7.1	8.8	8.6	8.4	8.1
Restructured Loans	7.7	9.6	8.8	8.6	7.5
Prolonged Loans	5.0	4.9	5.1	4.4	4.4
Nonperforming loans by sector (share of total loans)					
Industry	0.6	0.9	0.9	0.9	0.9
Agriculture	0.7	1.0	1.0	0.9	0.8
Trade	3.1	3.5	3.5	3.6	3.2
Construction	0.2	0.7	0.5	0.5	0.8
Mortgage	0.8	0.9	0.9	0.8	0.8
Consumer loans	0.4	0.5	0.5	0.4	0.4
Other	1.3	1.3	1.4	1.3	1.3
Nonperforming loans by currency (share of total loans)					
Foreign currency nonperforming loans	5.1	5.7	5.3	5.4	5.1
Som nonperforming loans	2.0	3.1	3.4	3.1	3.0
Loan-loss provisioning/nonperforming loans	53.4	56.4	56.5	55.3	54.6
Nonperforming assets/total assets	3.8	4.6	4.6	4.7	4.5
Earnings and profitability					
Return on equity	10.8	3.4	2.5	4.5	7.2
Return on assets	1.5	0.5	0.4	0.7	1.1
Net interest margin	7.8	7.0	7.2	7.5	7.7
Spread	7.1	6.3	6.6	6.9	7.1
Income from services and commission fee/total income	8.1	7.8	9.7	8.0	10.8
Loans and deposits					
Loans/deposits	100.7	95.0	93.6	98.2	96.5
Loans/total assets	53.0	52.6	52.9	55.4	55.3
Foreign currency exposure					
Foreign currency exposure	-513.5	1,286.9	585.1	217.4	831.8
Loans/deposits (in foreign currency)	80.3	79.2	78.3	80.9	76.5
Share of foreign currency deposits in total deposits 1/	69.1	53.4	52.7	50.5	49.8
Share of foreign currency loans in total loans	55.1	44.5	44.0	41.6	39.5
Memorandum items:					
Assets to GDP	41.7	38.7	38.3	38.9	39.9
Deposits to GDP	21.9	21.4	21.7	22.0	22.9

Source: National Bank of the Kyrgyz Republic.

1/ Without deposits of banks, nonbank financial-credit institutions, and deposits of the Government of the Kyrgyz Republic.

Table 8. Kyrgyz Republic: Proposed Reviews and Disbursements Under the Three-Year Extended Credit Facility Arrangement

Availability Date	Action	Associated Disbursement	Share of Access (In percent)
On April 8, 2015	First disbursement upon approval of the three-year ECF arrangement. Disbursed.	SDR 9.514 million	14.3
On October 7, 2015	Second disbursement upon completion of the first review, based on observance of performance criteria for June 2015. Disbursed.	SDR 9.514 million	14.3
On April 6, 2016	Third disbursement upon completion of the second review, based on observance of performance criteria for December 2015. Disbursed	SDR 9.514 million	14.3
On October 5, 2016	Fourth disbursement upon completion of the third review, based on observance of performance criteria for June 2016. Disbursed.	SDR 9.514 million	14.3
On April 4, 2017	Fifth disbursement upon completion of the fourth review, based on observance of performance criteria for December 2016.	SDR 9.514 million	14.3
On October 3, 2017	Sixth disbursement upon completion of the fifth review, based on observance of performance criteria for June 2017.	SDR 9.514 million	14.3
On April 2, 2018	Seventh disbursement upon completion of the sixth review, based on observance of performance criteria for December 2017.	SDR 9.516 million	14.3
Total		SDR 66.600 million	100.0

Source: International Monetary Fund.

Table 9. Kyrgyz Republic: Indicators of Capacity to Repay the Fund, 2016–22 1/

	2016	2017	2018	2019	2020	2021	2022
Fund obligations based on existing credit							
(In millions of SDRs)							
Principal	5.7	18.3	20.7	17.5	18.7	17.1	16.2
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit							
(In millions of SDRs)							
Principal	5.7	18.3	20.7	17.5	18.7	17.1	16.2
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit							
In millions of SDRs	5.7	18.3	20.7	17.5	18.7	17.1	16.2
In millions of U.S. dollars	7.7	25.7	29.2	24.7	26.4	24.1	22.8
In percent of gross international reserves	0.4	1.4	1.6	1.2	1.1	0.9	0.8
In percent of exports of goods and services	0.3	1.0	1.0	0.8	0.7	0.6	0.5
In percent of debt service 2/	5.3	16.1	15.3	12.2	12.1	10.1	8.3
In percent of GDP	0.1	0.4	0.4	0.3	0.3	0.3	0.3
In percent of quota	3.2	10.3	11.6	9.9	10.5	9.6	9.1
Outstanding Fund credit 2/							
In millions of SDRs	139.9	140.6	129.5	112.0	93.2	76.1	59.9
In billions of U.S. dollars	0.2	0.2	0.2	0.2	0.1	0.1	0.1
In percent of gross international reserves	10.6	10.5	9.9	7.6	5.6	4.1	2.9
In percent of exports of goods and services	7.7	7.3	6.4	4.8	3.6	2.7	1.9
In percent of debt service 2/	130.1	123.7	95.8	78.0	60.5	44.9	30.9
In percent of GDP	2.9	2.8	2.5	2.0	1.6	1.3	0.9
In percent of quota	78.8	79.2	72.9	63.0	52.5	42.9	33.8
Net use of Fund credit (in millions of SDRs)	3.8	0.8	-11.2	-17.5	-18.7	-17.1	-16.2
Disbursements	9.5	19.0	9.5	-	-	-	-
Repayments and Repurchases	5.7	18.3	20.7	17.5	18.7	17.1	16.2
Memorandum items:							
Nominal GDP (in millions of U.S. dollars)	6,551	7,090	7,309	7,732	8,154	8,545	9,027
Exports of goods and services (in millions of U.S. dollars)	2,449	2,703	2,870	3,285	3,638	3,915	4,363
Gross International Reserves (in millions of U.S. dollars)	1,777	1,886	1,848	2,082	2,354	2,613	2,861
Debt service (in millions of U.S. dollars) 2/	144.8	160.1	190.6	202.5	217.5	238.9	273.0
Quota (millions of SDRs)	177.6	177.6	177.6	177.6	177.6	177.6	177.6

Sources: IMF staff estimates and projections.

1/ Assumes seven semi-annual disbursements under the ECF facility of 37.5 percent of quota (SDR 66.6 million) starting in April 2015. On October 3, 2016 the IMF Executive Board approved a modified interest rate setting mechanism which effectively sets interest rates to zero on ECF and SCF through December 31, 2018 and possibly longer. The Board also decided to extend zero interest rate on ESF till end 2018 while interest rate on RCF was set to zero in July 2015. Based on these decisions and current projections of SDR rate, the following interest rates are assumed beyond 2018: projected interest charges between 2019 and 2020 are based on 0/0/0/0.25 percent per annum for the ECF, SCF, RCF and ESF, respectively, and beyond 2020 0/0.25/0/0.25 percent per annum. The Executive Board will review the interest rates on concessional lending by end-2018 and every two years thereafter.

2/ Total external public debt service includes IMF repurchases and repayments.

Table 10. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, December 2016–March 2018

(In millions of soms; unless otherwise indicated; eop)

	2016				2017											2018
	December				March				June				September	December		March
	QPC				IT				QPC				IT	QPC		IT
	Target	Adj.	Actual	Status	Target	Adj.	Actual	Status	Target	Adj.	Actual	Status	Target	Current	Proposed	Proposed
Quantitative performance criteria 1/																
1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars)	1,418	1,419	1,521	Met	1,346	1,346	1,512	Met	1,347	1,359	1,575	Met	1,329	1,347	1,593	1,500
2. Ceiling on net domestic assets of the NBKR (eop stock)	-9,587	-12,588	-18,896	Met	-7,546	-6,288	-20,720	Met	-5,388	-2,522	-13,712	Met	-5,746	-5,199	-3,977	-102
3. Ceiling on cumulative overall deficit of the general government 2/	20,156	21,499	20,897	Met	9,691	9,165	1,246	Met	17,549	14,128	4,361	Met	17,032	14,480	17,318	6,577
4. Present value of new external debt contracted or guaranteed (continuous, in millions of U.S. dollars)	287		141	Met	311		88	Met	311		130	Met	311	311	392	326
5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0		0	Met	0		0	Met	0		0	Met	0	0	0	0
6. Ceiling on newly introduced or renewed tax exemptions 3/ (continuous, in number of occurrence)	n.a.		n.a.	n.a.	n.a.		n.a.	n.a.	n.a.		n.a.	n.a.	n.a.	n.a.	0	0
Indicative Targets 1/																
1. Ceiling on reserve money	85,656		85,584	Met	86,376		81,586	Met	91,329		92,432	Not met	92,312	93,968	102,155	100,314
2. Cumulative floor on state government tax collections 2/	97,783		92,929	Not met	20,031		21,968	Met	43,051		46,499	Met	71,142	106,653	106,102	21,496
3. Floor on cumulative state government spending on social assistance, Unified Monthly Benefit and Monthly Social Benefit programs 2/	5,322		5,424	Met	1,339		1,390	Met	2,678		2,813	Met	4,017	5,557	5,557	1,339
4. Ceiling on new nonconcessional external debt contracted or guaranteed by public sector (continuous, in millions of U.S. dollars) 4/	0		0	Met	0		0	Met	0		0	Met	0	0	0	0
5. Ceiling on introducing new and renewal of existing tax exemptions (continuous, in number of occurrence) 5/ 6/	0		0	Met	0		0	Met	0		1	Not met	0	0	2	n.a.

Sources: Kyrgyz authorities and IMF staff estimates and projections.
1/ As defined in the TMU.
2/ Cumulative from beginning of the year.
3/ Agreed during the April negotiations to switch the IT to a QPC.
4/ External debt contracted or guaranteed with a grant element of less than 35 percent.
5/ A VAT exemption on private schools and personal income tax exemption for the financial police were granted, respectively, in Q2 and Q4.
6/ IT until becoming a QPC by the Executive Board during the fourth and fifth reviews board meeting.

Table 11. Kyrgyz Republic: Prior Actions and Structural Benchmarks Under the Extended Credit Facility

Measures	Timing	Status
Prior Actions	***5 business days prior to the board meeting***	
Amend the Tax Code to restore VAT on wheat and flour effective January 1, 2018.		
Submit to Parliament amendments to the Banking Law to reintroduce key provisions on (i) governance and oversight, particularly to introduce majority of non-executive membership in the board of the NBKR; and (ii) lending to non-supervised institutions.		
Submit changes to the draft 2018 Budget Law to replace articles 7.1 and 7.3 with a direct reference to the relevant articles in the Budget Code.		
Submit changes to the draft amendments to the Procurement Law currently under consideration in Parliament to (i) limit the special procedures for joint stock companies with state majority to shortening procurement period requirements; (ii) remove proposals that broaden the scope for the Government of the Kyrgyz Republic and the authorized government agency for state material reserves to engage in direct contracting beyond the conditions set out in the existing Procurement Law of the Kyrgyz Republic; and (iii) maintain mandatory publication of the contract awards in all cases except those related to national security and defense.		
Structural Benchmarks		
I. FISCAL POLICY		
Set up a comprehensive register of all employees of the general government.	End-March, 2017	**Not met**
Relying on the action plan to reform personnel and remuneration policy, identify quantitative measures to reduce the wages bill to 8.8 percent of GDP in 2018.	End-May, 2017	**Not met 1/**
Sign the FMIS terms of reference.	End-May, 2017	**Not met**
Introduce a standardized framework for project monitoring of physical and financial performance for all externally and domestically financed projects exceeding 50 million soms.	End-June, 2017	**Not met**
Finalize the review and the action plan to reduce subsidies.	End-July, 2017	**Met**
Sign the contract with the IT provider for the FMIS project.	End-September, 2017	**Not met**
Introduce a standardized framework for project monitoring of physical and financial performance for all externally and domestically financed projects exceeding 50 million soms.	End-December, 2017	**Revised deadline**
Develop a framework for the formal appraisal for all externally and domestically financed projects (exceeding 50 million soms) prior to selection, with the nature of the appraisal tailored to the size of the project and sector.	End-December, 2017	**New**
Submit to Parliament proposals listed in table 3 of this LOI under tax policy, totaling 0.4 percent of GDP, including eliminating tax exemptions on some goods and services, raising excise rates, and expanding the tax base.	End-January, 2018	**New**
Prepare an analysis of the 20 largest tax exemptions in terms of revenue impact on the budget, including concrete proposals to streamline them.	End-February, 2018	**New**
Based on a headcount analysis, adopt the relevant government decision or resolution to cut the ceiling for state and local administrative staff and subordinated institutions by 10 percent to be implemented by September 2018.	End-March, 2018	**New**
Adopt a new medium-term tariff strategy with the intention of restoring the financial sustainability of the energy sector by adjusting energy prices to close the gap between the energy price and the cost recovery level for all energy users starting in 2018.	End-March, 2018	**New**
Submit to Parliament amendments to the Budget Code to include the fiscal rule, and to more clearly specify the conditions for emergency appropriations and reallocation of resources within the budget envelope.	End-March, 2018	**New**
Submit to Parliament amendments to the recently adopted law on "State Subsidies of the Kyrgyz Republic" (universal child allowance) to restore targeting of the most vulnerable.	End-May, 2018	**New**
II. FINANCIAL SECTOR		
Develop a strategic plan for supervision with the following components: (i) personnel policy to attract and retain qualified personnel, and decrease personnel turnover rate; (ii) training of supervisors to ensure that staff is familiar with the NBKR's supervisory approach and to improve their technical ability; (iii) enhancing the supervisory approach, including implementation of the risk-based supervision; and (iv) strengthening the current regulatory framework and bringing it line with international standards.	End-December, 2016	**Met**
Approve by the NBKR Board regulations for: (i) classifying restructured loans, which will result in abolishing the prolonged loans category; and (ii) refinancing of classified loans.	End-March, 2017	**Met**
DEBRA to submit to the courts requests for liquidating the following banks: "Kyrgyzagroprombank" banks, "Manas", "Issyk-Kul", and "AUB" banks.	End-March, 2017	**Not met**
Circulate to ministries for review amendments to the Banking Law to reintroduce the missing provisions regarding: (i) governance and oversight, including the NBKR's Board composition; (ii) judicial review and nonsuspension of the NBKR's decisions; (iii) powers of the NBKR in the resolution process and liquidation process; and (iv) lending to non-supervised institutions.	End-April, 2017	**Met**
Revise and enact regulations to preserve the main requirement for lending to related parties.	End-May, 2017	**Met**
Submit to Parliament amendments to the Banking Law to reintroduce the missing provisions regarding: (i) governance and oversight, including the NBKR's Board composition; (ii) judicial review and nonsuspension of the NBKR's decisions; (iii) powers of the NBKR in the resolution process and liquidation process; and (iv) lending to non-supervised institutions.	End-July, 2017	**2/**
DEBRA to submit to court a request for liquidating "AUB" bank.	End-February, 2018	**New**
Resubmit to Parliament the draft AML/CFT law in line with international standards.	End-March, 2018	**New**
Enact amendments to the Banking Law to reintroduce the missing provisions regarding: (i) governance and oversight, particularly to introduce majority of non-executive membership in the board of the NBKR; and (ii) lending to non-supervised institutions.	End-March, 2018	**Revised 3/**
DEBRA to submit to court requests for liquidating "Manas" and "Issyk-Kul" banks.	End-May, 2018	**New**

Source: IMF staff.

1/ The action plan was completed with one-month delay as agreed during the April mission.

2/ Given that the measure is unconstitutional due to the unconstitutionality of a provision requiring judicial review and nonsuspension of the NBKR's decisions, this end-July 2017 structural benchmark is not being assessed for program purposes.

3/ Proposed to remove from this benchmark, established previously as a December SB under the third review, two provisions regarding (a) judicial review and nonsuspension of the NBKR's decisions which is unconstitutional, and (b) powers of the NBKR in the resolution process and liquidation process which is no longer necessary given provisions under the current Banking Law.

Table 12a. Kyrgyz Republic: Actual Borrowing Program
(January 1–December 31, 2016)

PPG external debt	Volume of new debt in 2016		PV of new debt in 2016 (program purposes)		PV of new debt in 2016 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
Sources of debt financing	**230.5**	**100**	**141.4**	**100**	**141.4**	**100**
Concessional debt, of which	**230.5**	**100**	**141.4**	**100**	**141.4**	**100**
Multilateral debt	230.5	100	141.4	100	141.4	100
Bilateral debt	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	**0.0**	**0**	**0.0**	**0**	**0.0**	**0**
Semi-concessional	0.0	0	0.0	0	0.0	0
Commercial terms	0.0	0	0.0	0	0.0	0
By Creditor Type	**230.5**	**100**	**141.4**	**100**	**141.4**	**100**
Multilateral	230.5	100	141.4	100	141.4	100
Bilateral - Paris Club	0.0	0	0.0	0	0.0	0
Bilateral - Non-Paris Club	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0
Uses of debt financing	**230.5**	**100**	**141.4**	**100**	**141.4**	**100**
Infrastructure	180.5	78	104.5	74	104.5	74
Social Spending	0.0	0	0.0	0	0.0	0
Budget Financing	50.0	22	37.0	26	37.0	26
Other	0.0	0.0	0.0	0.0	0.0	0.0
Memo items						
Indicative projections						
Year 2	**0.0**		**0.0**		**0.0**	
Year 3	**0.0**		**0.0**		**0.0**	

Sources: Kyrgyz authorities and IMF staff.

Table 12b. Kyrgyz Republic: Type of New External Debt
(In millions of U.S. dollars, January 1–December 31, 2016)

By the type of interest rate	
Fixed Interest Rate	180.5
Variable Interest Rate	0.0
Unconventional Loans	50.0
By currency	
USD denominated loans	167.3
Loans denominated in other currency	63.2

Sources: Kyrgyz authorities and IMF staff.

Table 13a. Kyrgyz Republic: Actual Borrowing Program
(January 1–September 30, 2017)

PPG external debt	Volume of new debt in 2017		PV of new debt in 2017 (program purposes)		PV of new debt in 2017 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
Sources of debt financing	**316.1**	**100**	**158.3**	**100**	**158.3**	**100**
Concessional debt, of which	**316.1**	**100**	**158.3**	**100**	**158.3**	**100**
Multilateral debt	316.1	100	158.3	100	158.3	100
Bilateral debt	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	**0.0**	**0**	**0.0**	**0**	**0.0**	**0**
Semi-concessional	0.0	0	0.0	0	0.0	0
Commercial terms	0.0	0	0.0	0	0.0	0
By Creditor Type	**316.1**	**100**	**158.3**	**100**	**158.3**	**100**
Multilateral	316.1	100	158.3	100	158.3	100
Bilateral - Paris Club	0.0	0	0.0	0	0.0	0
Bilateral - Non-Paris Club	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0
Uses of debt financing	**316.1**	**100**	**158.3**	**100**	**158.3**	**100**
Infrastructure	316.1	100	158.3	100	158.3	100
Social Spending	0.0	0	0.0	0	0.0	0
Budget Financing	0.0	0	0.0	0	0.0	0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Memo items						
Indicative projections						
Year 2	**0.0**		**0.0**		**0.0**	
Year 3	**0.0**		**0.0**		**0.0**	

Sources: Kyrgyz authorities and IMF staff.

Table 13b. Kyrgyz Republic: Type of New External Debt
(In millions of U.S. dollars, January 1–September 30, 2017)

By the type of interest rate	
Fixed Interest Rate	306.4
Variable Interest Rate	9.7
Unconventional Loans	0.0
By currency	
USD denominated loans	71.4
Loans denominated in other currency	244.7

Sources: Kyrgyz authorities and IMF staff.

Table 14a. Kyrgyz Republic: Projected External Borrowing Program
(January 1–December 31, 2017)

PPG external debt	Volume of new debt in 2017		PV of new debt in 2017 (program purposes)		PV of new debt in 2017 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
By sources of debt financing	**693.1**	**100**	**392.1**	**100**	**392.1**	**100**
Concessional debt, of which	**693.1**	**100**	**392.1**	**100**	**392.1**	**100**
Multilateral debt	693.1	100	392.1	100	392.1	100
Bilateral debt	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	**0.0**	**0**	**0.0**	**0**	**0.0**	**0**
Semi-concessional	0.0	0	0.0	0	0.0	0
Commercial terms	0.0	0	0.0	0	0.0	0
By Creditor Type	**693.1**	**100**	**392.1**	**100**	**392.1**	**100**
Multilateral	693.1	100	392.1	100	392.1	100
Bilateral - Paris Club	0.0	0	0.0	0	0.0	0
Bilateral - Non-Paris Club	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0
Uses of debt financing	**693.1**	**100**	**392.1**	**100**	**392.1**	**100**
Infrastructure	693.1	100	392.1	100	392.1	100
Social Spending	0.0	0	0.0	0	0.0	0
Budget Financing	0.0	0	0.0	0	0.0	0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Memo Items						
Indicative projections						
Year 2	**0.0**		**0.0**		**0.0**	
Year 3	**0.0**		**0.0**		**0.0**	

Sources: Kyrgyz authorities and IMF staff.

Table 14b. Kyrgyz Republic: Type of the New External Debt
(In millions of U.S. dollars, January 1–December 31, 2017)

By the type of interest rate	
Fixed Interest Rate	560.5
Variable Interest Rate	132.7
Unconventional Loans	0.0
By currency	
USD denominated loans	280.0
Loans denominated in other currency	413.1

Sources: Kyrgyz authorities and IMF staff.

Table 15a. Kyrgyz Republic: Projected External Borrowing Program
(January 1–June 30, 2018)

PPG external debt	Volume of new debt in 2018		PV of new debt in 2018 (program purposes)		PV of new debt in 2018 (including negative GEs)	
	USD million	Percent	USD million	Percent	USD million	Percent
By sources of debt financing	**522.2**	**100**	**326.0**	**100**	**326.0**	**100**
Concessional debt, of which	**522.2**	**100**	**326.0**	**100**	**326.0**	**100**
Multilateral debt	522.2	100	326.0	100	326.0	100
Bilateral debt	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0
Non-concessional debt, of which	**0.0**	**0**	**0.0**	**0**	**0.0**	**0**
Semi-concessional	0.0	0	0.0	0	0.0	0
Commercial terms	0.0	0	0.0	0	0.0	0
By Creditor Type	**522.2**	**100**	**326.0**	**100**	**326.0**	**100**
Multilateral	522.2	100	326.0	100	326.0	100
Bilateral - Paris Club	0.0	0	0.0	0	0.0	0
Bilateral - Non-Paris Club	0.0	0	0.0	0	0.0	0
Other	0.0	0	0.0	0	0.0	0
Uses of debt financing	**522.2**	**100**	**326.0**	**100**	**326.0**	**100**
Infrastructure	522.2	100	326.0	100	326.0	100
Social Spending	0.0	0	0.0	0	0.0	0
Budget Financing	0.0	0	0.0	0	0.0	0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Memo Items						
Indicative projections						
Year 2	**0.0**		**0.0**		**0.0**	
Year 3	**0.0**		**0.0**		**0.0**	

Sources: Kyrgyz authorities and IMF staff.

Table 15b. Kyrgyz Republic: Type of the New External Debt
(In millions of U.S. dollars, January 1–June 30, 2018)

By the type of interest rate	
Fixed Interest Rate	351.5
Variable Interest Rate	170.8
Unconventional Loans	0.0
By currency	
USD denominated loans	233.0
Loans denominated in other currency	289.2

Sources: Kyrgyz authorities and IMF staff.

Annex I. Assessment of the Impact of Tightened Border Control with Kazakhstan

1. **On October 10, Kazakhstan strengthened controls on the Kazakh-Kyrgyz border.** Specifically, Kazakhstan intensified security, phytosanitary, veterinary, and customs checks of goods from the Kyrgyz Republic, claiming the need to properly track the goods entering the EEU through the Kyrgyz borders. The Kyrgyz Republic has referred the matter to the WTO and the EEU Commission, arguing violation of trade rules.

2. **The tightening of border controls has predominantly affected exports via road.** The tightening of border controls has not been applied uniformly, affecting road transport more than rail and air links, and affecting exports to Kazakhstan and via Kazakhstan to Russia and Europe more than imports. Staff estimates that the tightened controls will lower exports to these countries by 20 percent in 2017Q4 and 2018. As the shares of Kazakhstan, Russia, and Europe (excluding Switzerland as gold exports remain unaffected) in total exports are around 18, 16, and 5 percent, respectively, this implies a decline in total exports by 7.8 percent. Imports have also been affected though to a lesser degree with reported delays for some shipments of construction materials, food and coal from Kazakhstan. Staff estimates the impact on imports to be modest.

Impact of Tightened Border Control with Kazakhstan

(In percentage point, unless otherwise specified)

	2017	2018
Non-Gold GDP	-0.3	-0.6
Inflation: Average	-0.7	0.2
End of Period	-1.6	2.0
Current account balance (in percent of GDP)	-0.1	-1.8
Fiscal balance (in percent of GDP)	-0.3	-0.1

Source: IMF staff calculations.

3. **The slowdown in trade would affect the Kyrgyz economy through several channels.** As a result of the slowdown in exports, non-gold real GDP growth is estimated to decelerate by around 0.3 and 0.6 percentage point, respectively, in 2017 and 2018.[1] The impact on prices may be neutral with lower growth and higher domestic supply of perishable goods (e.g., fruits, vegetables) offset by an increase in prices for construction materials, fuel and food items imported from Kazakhstan. Combined with the effect of the depreciation of the som in 2018, this would result in a slightly higher inflation. The decline in exports, only partially compensated for by lower imports stemming from weaker economic activity, is estimated to lead to a deterioration in the current account balance by 0.1 and 1.8 percent of GDP in 2017 and 2018, respectively. Lower GDP growth is expected to worsen the fiscal balance by 0.1–0.3 percentage point in 2017–18, respectively.

4. **If not resolved, tensions with Kazakhstan could have a long-term impact on the Kyrgyz economy as it would be difficult to find alternative transit routes and export markets bypassing Kazakhstan.** The recent improvement of relations with Uzbekistan could partially offset the loss of the Kazakh market, but it would be hard to bypass Kazakhstan as a transit route to Russia and Europe.

[1] The baseline scenario assumes that the situation will be resolved by end-2017.

Annex II. Potential Benefits from Opening-Up of Relations with Uzbekistan

1. **There are substantial potential benefits to the Kyrgyz economy from the opening-up of Uzbekistan.** The strong market of 32 million people with pent-up needs after years of economic isolation offers many opportunities for Kyrgyz businesses.

Economic Indicators		
	Uzbekistan	Kyrgyz Republic
Population (In millions, 2016)	32	6
GDP (In billlions of U.S. dollars, 2016) 1/	67	7
GDP per capita (In U.S. dollars, 2016) 1/	2,100	1,100
Average wage (In U.S. dollars, 2017) 2/	200	200

Sources: World Bank and Tradingeconomics.
1/ Evaluated at average exchange rate.
2/ Evaluated at the spot exchange rate as of November 16, 2017.

2. **Trade between the two countries has been growing in the past two years with the Kyrgyz Republic running a trade surplus.** The surplus amounted to about 0.3 percent to GDP in 2016. Uzbekistan today is the fourth largest destination for the Kyrgyz Republic, after Switzerland, Russia and Kazakhstan. The data likely understate the true extent of trade relations, and will likely show an increase following the opening of borders between the two countries this summer.

Trade between the Kyrgyz Republic and Uzbekistan
(In millions of U.S. dollars)

	2015	2016	Rank
Exports to Uzbekistan	95	125	4th
Imports from Uzbekistan	59	70	6th

Source: IMF Direction of Trade Statistics.

3. **Key sectors which could benefit immediately from the opening of borders are agriculture, food processing, light industries, and trade.** With comparable wage levels, trade between the two neighbors may offer synergies and benefits for business on both sides of the border, with the Kyrgyz economy benefiting more from gaining access to a larger market.

4. **In the medium and long terms integration of energy and transport infrastructure could offer substantial gains.** Joint projects to exploit cross-border hydropower and water resources, and extend road, rail and gas infrastructure could offer large gains, particularly in the context of regional integration (the One Belt One Road initiative and CASA-1000). Significant capital outlays will be needed to realize such gains. The diversification of trade routes and energy sources will have additional benefits.

Doing Business Indicators		
	Uzbekistan	Kyrgyz Republic
Rank	74	77
Distance to Frontier	66.3	65.7
Improvement in 2017	4.5	0.5

Source: World Bank 2018 Doing Business Report.

5. **To realize the benefits from the opening of the borders the Kyrgyz Republic needs to maintain its advantage in terms of economic openness and substantially improve business and investment climates.** In the medium and long terms, most benefits will flow to the economy that succeeds in attracting more investment and enhancing productivity. While ranking close in such indices as the World Bank Doing Business or Transparency International Corruption Perception Index, Uzbekistan has been progressing faster as it has opened up.

Annex III. Kyrgyz Development Strategies

1. **Three overlapping strategic planning exercises have been taking place since last spring.** The 2013–17 National Strategy for Sustainable Development (NSSD) coming to an end is being replaced by three medium and long term strategies including a new NSSD, Taza Koom and Jany Doorgo Kyrk Kadam or Fourty Steps to Prosperity (JDKK). With NSSD providing the overall vision up to 2040, JDKK is meant to chart its implementation in the first five years 2018–23. Taza Koom is a program of digital transformation running across the other two.

2. **The strategies pursue ambitious development and reform objectives derived mainly from the United Nation's Sustainable Development Goals.** Key objectives include reaching upper middle income status per World Bank classification (a minimum threefold increase in GDP per capita) and reducing poverty to 7 percent by 2040 (about one fourth of current level). They also include ambitious reform targets such as entering the top 40 in the World Bank's Doing Business index (currently 71), top 30 in Rule of Law index, and top 60 in Corruption Perceptions Index.

3. **The strategies are at various stages of development and still in the process of prioritization and costing.** The initial draft of the NSSD 2040 was unveiled on November 15, 2017, JDKK was adopted by Parliament in August as the government's program but remains largely a list of 40 projects and programs. Taza Koom is one of the 40 programs and the most detailed of the three strategies. Even though it is already being implemented, significant details remain to be worked out.

4. **Taza Koom uses digital transformation as a vehicle for far-reaching reforms with the aim of enhancing transparency and efficiency in government, economy, and society.** Program areas range from the electronic provision of public services to building a "digital e-economy" and "digital citizenship". The total cost of the project is not quantified apart from identifying the state budget, external aid and private sector investments as sources. A hierarchy of oversight and implementation structures are envisaged, from a higher council led by the Prime Minister to units within each government agency. Allocations for Taza Koom in the 2018 budget are modest compared to the tasks at hand.

5. **JDKK is the official program of the Government.** The 40 programs and projects are divided into reform and development categories. Reforms include the election process, development of civil society, support for small and medium enterprises, rule of law and foreign policy. Economic development programs are divided into economic, social, and security. Sector development programs focus on export oriented sectors: agriculture, tourism, and textiles. Social development includes health care, equality, education, and culture. There are also programs for security, combating terrorism, promoting democracy and environmental security.

6. **The strategies offer an important platform for elaborating the next stage in economic and social development, but further prioritization, streamlining and costing are needed before they can be realized.** The individual projects and programs under the proposed strategies vary greatly. Some are quite detailed while others are little more than wish lists. There are tensions

between programs that emphasize reform (public administration, energy, finance) and those that promote investment (agriculture, industry, health). The process of prioritizing and elaborating implementation and resources for these programs is important for building consensus on the next stage in economic development.

Annex IV. Review of Poverty Reduction Strategy Implementation[1]

1. **The Kyrgyz Republic's poverty reduction strategy is outlined in its Sustainable Development Program (SDP) 2013–17.** The SDP, adopted in early 2013 through a presidential decree, highlights strategic milestones, identifies development priorities as well as proposes 78 major investment projects. It has five main components: (i) economy, social development and environmental aspects; (ii) public administration system; (iii) human development and poverty alleviation; (iv) government services to certain parts of the population; and (v) regional sustainable development. The section on human development and poverty alleviation includes detailed objectives and priorities in the areas of labor market and employment, education, health, social protection, and pension system as well as the role of family and gender equality.

2. **Sound policies have helped restore macroeconomic stability and ensure fiscal sustainability, thereby contributing to poverty alleviation.** The completion of the Extended Credit Facility (ECF) Arrangement in 2014 was followed by the adoption of a 3-year successor ECF arrangement in 2015. Sound policies conducted under the ECF arrangements contributed to enhancing macroeconomic stability. Public debt is projected to decrease from 64.9 percent of GDP in 2015 to 55.9 percent in 2017 and toward 50 percent in the medium term. Economic activity picked up, with real GDP growth averaging 5 percent between 2013–17, while inflation has been contained. Unemployment rate declined from 8.3 percent in 2013 to 7.7 percent in 2016.[2] Monetary policy was enhanced through the adoption of a new interest rate-based framework, and financial supervision was strengthened. Finally, the Kyrgyz Republic's becoming a member of the Eurasian Economic Union in 2015 could further attract remittances, by allowing for the free movement of labor within the union. Given that remittances are one of the key factors affecting poverty and can reach up to 20 percent of families' income in some regions,[3] this in turn could help alleviate poverty.

3. **Progress in improving the business environment has been limited.** The country's 2018 Doing Business ranking has slightly deteriorated and continues to lag behind its peers in key areas such as getting electricity, paying taxes, enforcing contracts and resolving insolvency. However, a number of reforms have been undertaken, including the enhancement of the efficiency of public procurements and the easing of property transfer through the introduction of an online procedure. In the energy sector, the Datka-Kemin power transmission line was put into operation in 2015, while the Bishkek CHP power plant has been modernized. The Kyrgyz Republic also strengthened access to credit by establishing a unified and modern collateral registry as well as by improving its credit reporting system through the adoption of a new law on exchanging both positive and negative credit information. Finally, the customs union membership eased trading across borders.

[1] Most of the specific information and data are based on the "Preliminary Results of the Implementation of the National Strategy for Sustainable Development in the Kyrgyz Republic for 2013-17" prepared by the Kyrgyz authorities in 2017.

[2] World Bank, "World Development Indicators".

[3] International Monetary Fund, 2016, Selected Issues "Income Inequality in the Kyrgyz Republic", Country Report No. 16/56 (Washington).

4. There has been some progress in enhancing agricultural production. Significant efforts were made to increase agricultural production, which was also found to be one of the main determinants of poverty.[4] Specifically, the country enhanced agricultural infrastructure, including through the opening of an agricultural logistics center in Sokuluk, major repairs and new equipment of two veterinary laboratories in Bishkek and Osh, the development of greenhouses (1,448 in 2016 up from 351 in 2014), increased sowing area, the implementation of irrigation projects and the approval of a program in 2015 to build machine and tractor stations until 2020. It also succeeded in stabilizing the epizootic situation and reducing brucellosis incidence. Finally, better access to finance allowed the introduction of a special agricultural financing program under which loans were granted to 53,590 entities in the amount of som 17 billion for crop production, livestock raising, recycling, and services between 2013 and 2016.

5. Social spending has been preserved under the ECF arrangement; however, targeting has deteriorated. In the education sector, 351 community kindergartens were opened, contributing to a 40 percent increase in the number of children in kindergartens during 2013–16. Moreover, 230 new schools were built and the overhaul of 287 school buildings was completed. There has also been an increase in the number of students in secondary vocational education. In health care, a number of measures were undertaken, including the opening of three cardiology clinics, improved access to medicine and the prioritization of the fight against tuberculosis. As a result, tuberculosis incidence rate fell from 102.4 cases to 94.9 cases per 100 thousand people during 2013–16, while there was also a decrease in infant (from 19.9 to 16.6), child (from 23.3 to 19.8) and maternal mortality (from 36.0 to 29.7). Furthermore, access to drinking water and sanitary conditions have also improved. Finally, average pensions increased by almost 40 percent between 2012 and 2016 due to a two-stage increase, while social spending has been preserved in line with the indicative target on government spending on social assistance under the ECF arrangement. However, the recently approved universal child allowance replaces the previous means-tested social transfer scheme, reducing the targeted nature of the scheme and substantially increasing fiscal costs. It also leads to a decline in the monthly benefit from som 810 per child under the age of 16 to som 700 per child under the age of three and som 500 per child between the ages of three and sixteen, starting from the third child, thereby leading to lower social benefits for poor families.

[4] International Monetary Fund, 2016, Selected Issues "Income Inequality in the Kyrgyz Republic", IMF Country Report No. 16/56 (Washington).

Annex V. Female Labor Force Participation in the Kyrgyz Republic: Trend and Impact on Growth

1. Labor used to be an important growth driver for the Kyrgyz economy.[1] However, in recent decade, growth momentum was largely sustained by capital accumulation, while contribution of labor more than halved, a change more drastic than what would be implied by the trend of the working-age population (age 15–64).[2]

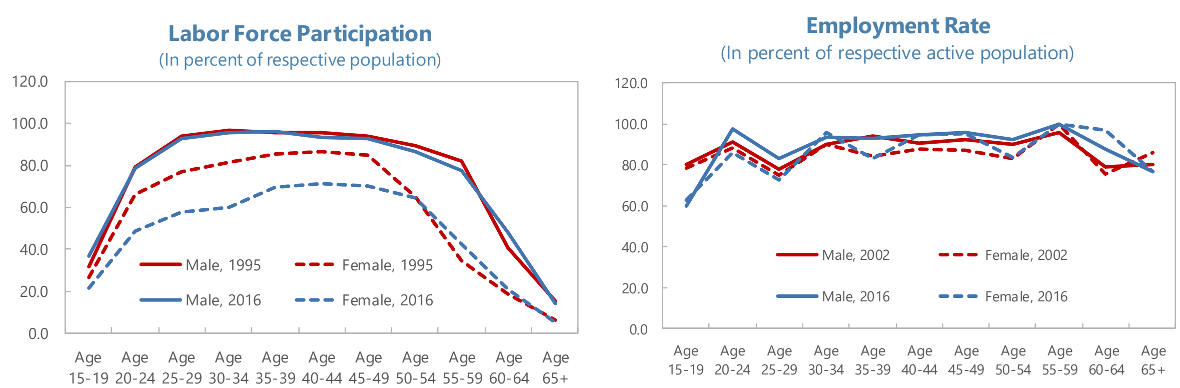
Contribution to Output Growth
(In percent)

	1995-2006	2007-2016	1995-2016
Output	**3.6**	**4.5**	**4.0**
Capital	0.7	5.7	2.9
Labor	0.6	0.3	0.5
TFP	2.3	-1.4	0.6
Memorandum			
Working-Age Population	2.2	1.5	1.9

Source: UN population survey, ILO, and IMF staff estimate.

2. Declining female labor force participation (FLFP) appears to be the major factor behind such changes. Estimates made by the International Labor Organization (ILO) indicate that significantly smaller share of young and prime-age women were active in the labor market in 2016 relative to 1995. Over the same period, however, participation of men barely changed. Moreover, gender- and age-specific employment rates also remain broadly unchanged over the last fifteen years.[3]

Age Profile of Labor Market Statistics



Source: International Labor Organization (ILO).

[1] See also International Monetary Fund, October 2017. "Kyrgyz Republic: Selected Issues "Economic Transformation: A Human Centered Diversification Strategy" , IMF Country Report (Washington).

[2] The labor input used in the growth accounting exercise is constructed using five-year age cohort for both male and female, taking into account as much as possible cohort-specific population, labor force participation and employment rates, as well as education (share of population with above basic level of education as classified by ILO, i.e., either intermediate or advanced level of education). Cohort-specific education data are available only for 2011–2013, therefore the average of these three years for each age-gender cohort has been applied to all years.

[3] Data prior to 2002 are not available, therefore in the growth accounting exercise, employment rates by age and by gender in 2002 are applied to the period 1995–2001.

3. Policies aimed at encouraging higher FLFP have the potential to boost economic growth and increase per capita income. To quantify the economic impact, different scenarios are simulated in a growth accounting exercise. In all scenarios, productivity as measured by the total factor productivity is assumed to grow at its historical trend average, capital accumulation is such that a constant capital-labor ratio is maintained, and employment rate for each age-gender cohort is assumed to remain constant at the respective 2016 level. The baseline scenario (Scenario I) assumes labor force participation for both men and women identical to that in 2016, and population will grow according to the most likely projection of the United Nations Population Survey (2015) over the long term. Scenario II aims to quantify the impact of higher FLFP. Hence, it adopts the same assumption regarding population growth and male labor force participation, but assumes that women's participation will gradually improve so that the gender gap between male and female participation will narrow to the 1995 level in 2050.[4] As illustrated by the table below, higher FLFP will accelerate growth permanently, and result in significantly higher per capita GDP.

Comparison of Different Scenarios

(In percentage points, unless otherwise specified)

	2020	2030	2040	2050
GDP Growth (Annualized, in Percent)				
I: Baseline	4.0	3.9	3.9	3.2
II: High FLFP	4.3	4.1	4.0	3.4
III: High Fertility	4.0	3.9	4.1	3.7
Per Capita GDP (Relative to Baseline)				
II: High FLFP	1.2	3.4	5.4	7.5
III: High Fertility	0.0	0.0	1.6	5.9
Implied Poverty Reduction (Relative to Baseline)				
II: High FLFP	-1.9	-5.5	-8.6	-12.0
III: High Fertility	0.0	0.0	-2.5	-9.3

Source: UN population survey, ILO, and IMF staff estimate.

4. Through its positive impact on growth, higher FLFP will also help reduce poverty. Preliminary estimate indicates that one percentage point increase in per capita GDP is associated with 1.6 percentage points reduction in poverty headcount ratio (at $3.10 a day, 2011 PPP).[5] Therefore, policies that gradually increase FLFP as proposed in Scenario II could potentially lead to 2 percentage points further reduction in poverty ratio in the medium term compared with the baseline.

[4] Linear interpolation is assumed for the convergence of the participation gap to its level in 1995, which implies around 2 percentage points improvement for most of the age groups. The assumed improvement could be relatively optimistic in the near term.

[5] The growth elasticities (semi-elasticities) of poverty usually range from -1 to -4 in empirical studies. The relative modest estimate for the Kyrgyz Republic is likely due to the fact that a significant part of growth since mid-2000 is driven the capital-intensive mining sector and hence is not very inclusive.

5. In light of the recently adopted law to provide universal child allowance effective January 2018, a high fertility scenario (Scenario III) is added to gauge its potential impact on growth.
In absence of detailed demographic information, Scenario III assumes that the resulted demographic trend will follow the high fertility projection of the United Nations Population Survey (2015), an assumption that probably sets the upper bound of the positive demographic influence of the universal child allowance. All other assumptions are the same as in the baseline scenario. Intuitively, any such positive demographics boost economic growth only in the long run, as it takes roughly two decades for the newborns to reach working-age. Even up to 2050, the gain in terms of per capita GDP is still less than Scenario II, as part of the output gain is offset by the larger population. Moreover, policies such as the universal child allowance could alter people’s—especially women’s—preference regarding time allocation to child-bearing and work. It is likely that such policies will result in lower FLFP and further widen the gender gap, and eventually lead to output loss relative to the baseline scenario at least in the near term.

6. Women’s decision to work can be significantly affected by labor market policies. This includes flexibility of working hours, tax policies, as well as child-support policies. As a result, promoting more flexible work arrangement by formalizing part-time jobs and developing remote-work options could encourage more women to participate in the labor market. Tax policies should avoid penalizing the second income earner in the household, which in many cases turns out to be the woman and hence discourages her from engaging in formal labor market. Child-upbringing could be challenging for working mothers. In this context, policies aimed to improve the accessibility to, and affordability of, childcare service and advocate a more balanced share of responsibility between the parents, could increase FLFP.

Appendix I. Letter of Intent

December 1, 2017

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

Dear Madame Lagarde:

We continue to make progress on a comprehensive economic and financial reform program, supported by an arrangement under the Extended Credit Facility (ECF) approved by the IMF Executive Board on April 8, 2015 (the program). We are grateful to the IMF for its continued support.

Our economy continues its recovering trend and grew by 5 percent in the first three quarters. We expect the growth momentum to extend into 2018 despite risks arising from recent tensions at the border with Kazakhstan. The recently launched Program of the Government of the Kyrgyz Republic "Jany Doorgo Kyrk Kadam" envisions far reaching structural reforms aimed at accelerating growth and making it more equitable.

The fourth review, originally scheduled in June 2017, could not be completed on time due to delay in implementing the prior action of reversing the VAT exemption on wheat and flour, and the lack of agreement on the Letter of Intent (LOI). However, we remain committed to the policies and objectives supported by the ECF arrangement. Our actions ensured that all end-December 2016 and end-June 2017 quantitative performance criteria (QPCs) were met. All but three indicative targets (IT) were met. The December 2016 IT on tax revenue was missed due to weak tax collection. The continuous IT on introducing new or renewing existing tax exemptions was also missed as financial police staff were exempted from income tax, and VAT and profit tax exemption was granted to private schools in 2017, at the initiative of Parliament. The June 2017 IT on reserve money was missed due to the rapid growth of cash outside the banks.

The delay in the fourth review also negatively affected our performance in terms of structural benchmarks (SBs). Six SBs were missed, five of which were proposed to be postponed or modified at the time of the fourth review. These are: (i) liquidation of banks under DEBRA (completed for "Kyrgyzagroprombank", pending for the other three banks due to ongoing litigations); (ii) the signing of the terms of reference for the FMIS project with the withdrawal of the foreign financing; and subsequently; (iii) the signing of the contract with the IT provider; (iv) the identification of quantitative measures to reduce the wage bill, met with a one-month delay after it was turned into a prior action; and (v) introducing a standardized framework for project monitoring of physical and financial performance for all projects exceeding 50 million soms whose deadline was proposed to be postponed to December 2017. In addition, the comprehensive register of all employees of the general government was finalized with one-month delay. The SB to submit to Parliament the amendments to the Law of the Kyrgyz Republic "On the National Bank of the Kyrgyz Republic, Banks, and Banking Activity" (the Banking Law) is not being assessed for program purpose, as these amendments were rejected by the Ministry of Justice of the Kyrgyz Republic, on the ground that the ones pertaining to judicial review were unconstitutional.

In view of the progress made and our continued commitment to the program, we request completion of the combined fourth and fifth review and disbursement in the amount of SDR 19.028 million (about US$26.35 million). We envisage that the disbursements under the ECF arrangement be channeled to the budget. We also request for modification of the performance criteria to reflect the updated macroeconomic outlook.

We believe the economic and financial policies set forth in this LOI to be adequate to meet the program's objectives.

We will continue to maintain a policy dialogue and consult with the IMF, at our own initiative or whenever the Managing Director of the IMF requests such a consultation, in advance of revisions to the policies contained in our LOI, in accordance with the IMF's policies on such consultations. We will provide IMF staff with data and information necessary for monitoring program implementation in line with the laws of the Kyrgyz Republic.

The program's QPCs, ITs, and SBs are set out in Tables 1 and 2 and described in the attached Technical Memorandum of Understanding (TMU).

As in the past, the authorities of the Kyrgyz Republic agree to the publication of this letter, the TMU, and the Debt Sustainability Analysis.

Performance in 2016 and 2017H1

1. Economic activity has been on the rise since late 2016. After a slow start, GDP growth accelerated towards the end of 2016 to 3.8 percent (3.7 excluding the Kumtor gold mine) supported by strong performance in trade, industry, agriculture and construction. Growth momentum continues into 2017 and the overall GDP grew by 5 percent in the first nine months. Inflation is also normalizing from a deflation at 0.5 percent at end-2016 to 3.3 percent in September 2017 (y/y), still below our target range of 5–7 percent. Low food and fuel prices due to in part by the lagged effect of currency appreciation were the main factors. Core inflation also declined to around 4 percent.

2. The current account deficit narrowed in 2016 and is expected to further decline in 2017, reflecting a number of factors. Exports benefited from the expansion of the Kumtor goldmine, while weak domestic demand and low energy prices continued to contain imports. Moreover, remittances surged by over 30 percent in US Dollar terms in 2017H1, benefiting both from improved access to the Russian labor market and regional economic recovery. The real effective exchange rate appreciated, reflecting nominal appreciation against the main trading partners' currencies.

3. **The overall fiscal deficit for 2016 reached 4.5 percent of GDP, and for 2017H1 1.3 percent of GDP, both in line with the program target.** In 2016, revenues were lower than planned mainly due to shortfall in tax collection. To compensate, we carried out ad-hoc cuts to goods and services expenditures and rephased some foreign-financed investment projects. The latter together with currency appreciation helped bring external public debt down to 56.6 percent of GDP at the end of 2016. The 2017H1 deficit was better than expected mainly due to one-off revenues from higher than expected proceeds from telecom court litigations and an unexpected grant from Russia, while expenditures were broadly in line with expectations.

4. **In absence of inflationary pressure, we relaxed our monetary policy stance to alleviate pressure on the banking sector and spur credit.** We lowered the policy rate from 10 percent at the beginning of 2016 to 5 percent by the end of the year, where it remains. Credit by commercial banks to the private sector started to recover since early 2017, and posted a growth of 15.2 percent (y/y) in September 2017.

5. **Pressures on the banking sector are subsiding, but vulnerabilities remain.** Falling dollarization is reducing pressure on the banking sector. Thanks to our policy measures and the appreciation of the som, loan and deposit dollarization fell significantly. Nonetheless, we continue to monitor the sector for vulnerabilities, particularly NPLs and restructured loans which stood respectively at 8.3 percent and 7.9 percent (of which 4.7 percent are prolonged loans) and are among the lowest in the region.

Outlook and Risks

6. **Prospects for the near and medium terms are improving as regional pressures subside, but realizing good outcomes requires prudent macro policies and structural reforms.** For 2017, we expect real growth to reach around 3.5 percent, benefiting from recovery in domestic and external demand. Growth is expected to gradually recover over the medium term. Economic recovery will push inflation up to within the NBKR target range (5-7 percent) as food and fuel prices recover. The current account deficit is expected to narrow to about 10 percent in 2017.

7. **The main risks to our economy continue to stem from developments in our key partners Russia, Kazakhstan and China.** A slowdown in oil dependent Russia and Kazakhstan and economic retrenchment in China could dampen external demand, remittances and foreign-financed investment. Recent tightening of border controls by Kazakhstan could negatively affect economic performance in 2017 and further delay the positive effects of EEU accession. The narrowing of correspondent banking channels could weigh on economic activities by isolating the banking sector from the rest of the world and increasing informal economy. Upside risks include higher growth from Russia, stronger economic relationships with Uzbekistan, and the strengthening of economic ties with China.

The Policies for the Remainder of 2017 and 2018

To keep the program on track, we will adhere to revenue and expenditure policies consistent with program commitments; exert of our efforts to re-introduce key missing elements of the recently enacted Banking Law; and continue to carry out limited interventions in the foreign exchange market to smooth excessive volatility.

Fiscal Policy

8. We are committed to a 2017 fiscal deficit target of 3.5 percent of GDP, which is relaxed compared to the previous commitment under the program, to accommodate the spending on emergency and rehabilitation work related to the April landslide in the south. In the first nine months of the year, we undertook one-off expenditures, which represent about 4 percent of GDP. To offset the one-off expenditures, we have identified one-off revenues (unbudgeted dividends and litigation receipts). We will also cut some non-priority expenditures and domestically-financed investments, which will help us achieve a relaxed program target of 3.5 percent of GDP.

9. Despite recent permanent expansionary policy measures, we remain committed to a fiscal deficit of 2.5 percent of GDP in 2018 to continue our consolidation efforts, rebuild our buffers, and keep our debt level sustainable. The permanent expansionary measures adopted in 2017 equivalent to 2 percent of GDP include (i) the universal child allowance; (ii) increase in the pensions and wages for certain categories of public sector employees; (iii) continuation of the VAT exemption on wheat and flour; and (iv) new tax exemptions for private schools, initiated by Parliament, and subsidized interest rates for export producers. Other measures are under consideration, which could further worsen the fiscal balance. To mitigate this, we will (i) implement measures included in the appendix, of which the measures on tax and non-tax revenues represent 1.6 percent of GDP; and (ii) reduce current expenditures and domestically financed capital spending by 0.4 percentage points. To meet our deficit target, we will:

a. **Increase budgetary revenues as a matter of priority.** To this end, we will broaden the tax base by streamlining exemptions and capturing the non-observed economy. In particular, we will (i) work to defend in Parliament changes to the Tax Code of the Kyrgyz Republic to restore the VAT on wheat and flour effective January 1, 2018 (prior action); (ii) submit to parliament proposals listed in Table 3 under tax policy, totaling 0.4 percent of GDP, including eliminating tax exemptions on some goods and services, raising excise rates, and expanding the tax base (SB, January 2018); (iii) prepare an analysis of the 20 largest exemptions in terms of revenue impact on the budget, including concrete proposals to streamline them (SB, February 2018); and (iv) refrain from introducing new exemptions or renewing expiring ones (continuous QPC).

b. **Reduce expenditures and improve efficiency is essential to maintain a sustainable fiscal position.**

i. ***On the wage bill:*** We have introduced the register of state and municipal jobs, established requirements for high level civil servants, and reduced the number of political appointees by half. We will continue our reforms with the aim of reaching a wage bill of 9.0 percent of GDP in 2018 by (i) based on a headcount analysis, adopting the relevant government decision or resolution to cut the ceiling for state and local administrative staff and subordinated institutions by 10 percent to be implemented by September 2018 (SB, March 2018); (ii) containing the number of support staff in the public sector, including in the social sector and at other subordinated institutions; (iii) eliminating redundant or ineffective state entities; (iv) returning unused wage allocation to the treasury instead of using them for additional bonuses; (v) limiting the growth of base salaries, allowances and bonuses to inflation and refraining from ad-hoc wage increases; and (vi) gradually consolidating all wage-related expenditures, in the base part of the salary, including bonuses, with the exception of certain additions stipulated by law, in order to enhance budget transparency;

ii. ***On transfers and subsidies*:** continue reforms aimed at reducing the burden of subsidies and improving targeting by (i) adopting a new medium-term tariff strategy (SB, March 2018) with the intention of restoring the financial sustainability of the energy sector by adjusting energy prices to close the gap between the energy price and the cost recovery level for all energy users starting in 2018; (ii) improving the efficiency of social spending by gradually shifting from categorical to means-tested programs by (a) submitting to Parliament amendments to the recently adopted Law of the Kyrgyz Republic on "State Subsidies of the Kyrgyz Republic" (universal child allowance) to restore targeting of the most vulnerable (SB, May 2018), (b) reducing the leakages of the system and the risk of excluding the most vulnerable households, (c) freezing categorical programs and their monetary compensation instead of privileges, and introducing targeting; (iii) working with Parliament to reject the draft Law of the Kyrgyz Republic "On Amending the Law of the Kyrgyz Republic "On State Pension Social Insurance" (on increasing teachers' pensions);

iii. ***On goods and services*:** (i) contain non-priority goods and services below the 2015 level by implementing e-procurement and improving control of ministries' and agencies' own resources (including special means); and (ii) continue to refrain from non-budget spending and any quasi-fiscal measures, which could undermine our targets; and

iv. ***On capital investment*:** adhere to the action plan on public investment management, especially on rationalizing domestically financed capital expenditures, keeping them under 3 percent of GDP.

c. **In the event of shortfall in any of the above measures,** we will identify alternative measures, including reversing existing tax exemptions on the basis of the aforementioned analysis of 20 largest exemptions, further streamlining non-priority goods and services, and domestically financed capital expenditure.

10. We will continue with our efforts to strengthen tax administration. In this respect, we will (i) introduce an electronic system for tracking trade transactions (e-invoicing, labeling, e-patents, online cash registers); (ii) introduce "safe city" project to use connected cameras to collect traffic fines; (iii) continue efforts to simplify tax payment and electronic reporting; and (iv) install service centers to track movement of goods imported from EEU countries to improve indirect tax administration.

11. Despite recent setbacks, we remain committed to pursue financial management information system (FMIS) reforms. We are working toward reaching an agreement to set up a new Multi Donor Trust Fund arrangement to support PFM reforms. In this respect:

a. We are committed to complete the FMIS project with our own resources, including through organic growth and integration of systems developed in-house. To this effect, we remain committed to completing the preparation of the terms of reference for FMIS including the human resources module to serve as a roadmap for the project implementation. We remain committed to extend treasury coverage to the Social Fund.

b. With IMF technical assistance, we are developing a credible, transparent and enforceable fiscal rule, which will provide an anchor to our fiscal policy. The new rule includes remedial actions to ensure compliance. We will submit to Parliament amendments to the Budget Code of the Kyrgyz Republic (Budget Code) to include the new rule and to specify more clearly the conditions for emergency appropriations and reallocation of resources within the budget envelope (SB, March 2018). We will introduce changes to the draft 2018 Budget Law to replace articles 7.1, allowing reallocation of budgetary resources within the envelope, and 7.3, allowing additional expenditures for urgent measures, with a direct reference to the relevant articles in the Budget Code (prior action).

c. The current framework, under which individual elements of fiscal policy, particularly on the revenue side, are divided among five different agencies with separate reporting lines and operational goals, has proven inefficient in addressing revenue shortfall. We will conduct an analysis of institutional responsibilities for tax policy design and implementation towards increasing coherence and accountability. Based on the outcome, we could decide on the optimal location of the tax policy function.

   The Procurement Law of the Kyrgyz Republic, which was adopted in 2015, represents a step forward compared to the previous one. We intend to safeguard the benefits of the new law, by introducing changes to the draft amendments, currently under consideration in Parliament (prior action), to (i) limit the special procedures for joint stock companies with state majority to shortening procurement period requirement; (ii) remove proposals that broaden the scope for the Government of the Kyrgyz Republic and the authorized government agency for state material reserves to engage in direct contracting beyond the conditions set out in the existing Procurement Law of the Kyrgyz Republic; and (iii) maintain mandatory publication of the contract awards in all cases except those related to national security and defense.

d. In compliance with the Budget Code of the Kyrgyz Republic, we included information on fiscal risks and information on transfers, on-lending and loan restructuring for SOEs into the explanatory note to the republican budget for 2018.

12. To ensure that debt remains sustainable and that the public debt ratio starts to decline, we will aim to further reduce the deficit over the medium term. To this end, we will (i) continue consolidation efforts over the medium term; (ii) refrain from non-concessional borrowing; (iii) improve debt monitoring; (iv) minimize fiscal risks stemming from SOEs by enhancing coordination between the Ministry of Finance of the Kyrgyz Republic and the State Property Fund of the Government of the Kyrgyz Republic; and (iv) improve the efficiency of public investment by strengthening selection and appraisal in line with Fund's Public Investment Management Assessment (PIMA) recommendations. To this end, we will develop a framework for the formal appraisal for all major externally and domestically financed projects (exceeding 50 million soms) prior to selection, with the nature of the appraisal tailored to the size of the project and sector (SB, December 2017).

Monetary and Exchange Rate Policies

13. Our monetary policy objective remains focused on ensuring price stability. Our monetary policy stance continues to reflect the need for relaxation to support growth as inflation remains subdued. On the other hand, we closely monitor credit growth and inflation dynamics, and stand ready to finetune our policy stance in case overheating pressures emerge.

14. We are committed to enhancing the monetary transmission mechanism, with a goal of gradually moving toward inflation targeting. Our efforts continue to focus on improving the traction of the policy rate, to achieve which goal the timely withdrawal of excess liquidity to encourage interbank trading remains a priority. In addition, we will: (i) continue to improve our monetary policy forecasting framework; (ii) continue the Ministry of Finance of the Kyrgyz Republic and the NBKR coordination on fiscal and monetary policy; (iii) consider developing the domestic securities market jointly by the NBKR and the Ministry of Finance of the Kyrgyz Republic in order to establish a benchmark yield curve; (iv) improve coordination between the NBKR and the RKDF to facilitate liquidity forecasting and improve coverage of monetary statistics; and (v) enhance the forward-looking component of our communication policy. We will also consider developing monetary instruments to balance the effect of our FX interventions and gold-related transactions on money supply.

15. We remain committed to a two-way exchange rate flexibility as the key to reducing external imbalances, enhancing competitiveness and safeguarding reserves. To ensure two-way flexibility, we will: (i) continue to intervene in the foreign exchange market only to smooth excessive fluctuations; and (ii) consider introducing new monetary instruments and developing hedging instruments.

Financial Sector

16. We continue to monitor the financial sector for emerging risks, particularly in the context of accelerating credit growth. In this context, we are (i) undertaking risk-based supervision (RBS) trainings with the plan of extending RBS to more banks by end-2017; (ii) preparing recommendations to help commercial banks to transition to the new international reporting standard (IFRS9) that will come into force in early 2018; (iii) operationalizing the crisis preparedness framework by approving the list of systemically important banks (SIBs), as well as the recapitalization procedure of these SIBs together with the Government of the Kyrgyz Republic. We will modify the organizational structure to better adapt to the requirement of RBS.

17. We will continue to maintain a level playing field among market players. NBKR will closely monitor RKDF activities in line with the Memorandum of Understanding (MOU). We are aware of the emerging cyber security risks, and actively work with the banks to strengthen the IT system, as well as to enhance our supervisory and regulatory framework to properly account for the cyber risks. We will also ensure equal application of capital requirements and other prudential regulations to all supervised entities. In line with international best practice, the NBKR will not assume an equity position in a commercial bank or any other entity involved in lending or investment activities.

18. We continue our reform efforts aimed at safeguarding the stability of the financial sector. We prepared amendments to the Banking Law, which were, however, rejected by the Ministry of Justice of the Kyrgyz Republic on constitutionality grounds with respect to the limitation of judicial review. Taking into accounts these developments, we will submit to Parliament in early December amendments to the Banking Law (prior action) to reintroduce key provisions on (i) governance and oversight, particularly to introduce majority of non-executive membership in the board of the NBKR; and (ii) lending to non-supervised institutions; and exert our best effort to enact them by March 2018 (SB). Due to protracted litigation and ongoing asset freezes, we were unable to liquidate the three remaining banks under DEBRA's management. Nevertheless, we remain committed to make every effort to ensure that DEBRA submits the remaining three banks, namely "AUB" (SB, February 2018), "Manas" and "Issyk-Kul" banks to court for liquidation by May 2018 (SB).

19. Despite the recent withdrawal of the draft Law of the Kyrgyz Republic on AML/CFT from Parliament, we remain committed to further improving the national AML/CFT framework. To this end, we will, as a first step, introduce key provisions through Kyrgyz Republic government regulations by end-February 2018, in order to meet FATF requirements. As a next step, we will submit to Parliament a revised AML/CFT Law in line with international standards and Fund advice (SB, March 2018). In this respect, we will seek additional technical assistance from the Fund.

20. The narrowing of the correspondent banking channels is becoming a significant risk to our banking sector. We continue to assist banks to enhance their compliance capacity, and reach out to foreign correspondent banks to clarify the situation and establish mutual understanding. In this regard, we would like to request the Fund to step up its support to raise awareness and foster coordinated actions at multinational level.

Institutional and Structural Reforms to Ensure Broad Based Growth

21. As we start preparations for our next national strategy for sustainable development, the key challenge remains to raise growth and make it more inclusive. The new Long Term National Strategy 2040 highlights the importance of sustainable and equitable growth. The strategy is aimed at building a "Smart Nation/Taza-Koom" with emphasis on human development through knowledge, education, health and the harnessing of new information and management technologies. Policies aimed at diversifying the sources of growth; rebuilding fiscal buffers to withstand future shocks; and transitioning to inflation targeting are key stations on the way to realizing the long-term vision.

22. To achieve high and inclusive growth, we need to tackle structural impediments and encourage the traded goods sectors. In this context, we will work to eliminate the main obstacles to growth, namely: (i) enhancing labor force participation, including female labor force participation; (ii) addressing skills mismatches and improving education outcomes; (iii) removing market distortion to encourage private investment needed to close infrastructure gaps; (iv) developing a new medium term tariff strategy to ensure energy sector sustainability; (v) developing the financial market; (vi) improving trade and competitiveness policies with the objective of maximizing the benefits from EEU membership and GSP+ (Generalized Scheme of Preferences Plus) status with the EU; and (vii) enhancing governance and tackling corruption.

23. We are undertaking a largescale review of state owned enterprises (SOEs) and joint stock companies aimed at enhancing transparency and efficiency of state property. In this context, we evaluated assets, liabilities, stock of debt, and share of state ownership. As a result, we were able to reduce the number of SOEs by half. We will draw a roadmap to improve management of the remaining SOEs and joint stock companies. To that effect, we will seek donor technical assistance.

24. We remain committed to carry out reforms aimed at improving the business climate by, among others, improving governance and continuing to combat corruption. The Government of the Kyrgyz Republic is embarking on a program of reforms specifically aimed at addressing areas of concern under the World Bank doing business framework including: access to the power grid, enforcement of contract, protection of property rights, ease of paying taxes, business insolvency and trade across borders. In this context, we are working to address regulatory shortcomings and weaknesses in the judicial system and law enforcement by enhancing predictability and transparency; and reduce the regulatory burden by streamlining the number of regulations and enforcement processes, and bolstering protections for businesses against potential abuse.

25. We remain committed to implementing the outstanding recommendation of the 2015 IMF safeguards assessment of the NBKR, by exerting best effort to ensure a timely passage of the necessary amendments to the Banking Law.

Sincerely yours,

/s/
D. Kenekeev
Acting Prime Minister of the Kyrgyz Republic

/s/
A. Kasymaliev
Minister of Finance
of the Kyrgyz Republic

/s/
N. Jenish
Acting Chairman of the National Bank
of the Kyrgyz Republic

Table 1. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, December 2016–March 2018

(In millions of soms, unless otherwise indicated; eop)

	2016				2017											2018
	December				March				June				September	December		March
	QPC				IT				QPC				IT	QPC		IT
	Target	Adj.	Actual	Status	Target	Adj.	Actual	Status	Target	Adj.	Actual	Status	Target	Current	Proposed	Proposed
Quantitative performance criteria 1/																
1. Floor on net international reserves of the NBKR	1,418	1,419	1,521	Met	1,346	1,346	1,512	Met	1,347	1,359	1,575	Met	1,329	1,347	1,593	1,500
(eop stock, in millions of U.S. dollars)																
2. Ceiling on net domestic assets of the NBKR (eop stock)	-9,587	-12,588	-18,896	Met	-7,546	-6,288	-20,720	Met	-5,388	-2,522	-13,712	Met	-5,746	-5,199	-3,977	-102
3. Ceiling on cumulative overall deficit of the general government 2/	20,156	21,499	20,897	Met	9,691	9,165	1,246	Met	17,549	14,128	4,361	Met	17,032	14,480	17,318	6,577
4. Present value of new external debt contracted or guaranteed	287		141	Met	311		88	Met	311		130	Met	311	311	392	326
(continuous, in millions of U.S. dollars)																
5. Ceiling on accumulation of new external payment arrears	0		0	Met	0		0	Met	0		0	Met	0	0	0	0
(continuous, in millions of U.S. dollars)																
6. Ceiling on newly introduced or renewed tax exemptions 3/	n.a.		n.a.	n.a.	n.a.		n.a.	n.a.	n.a.		n.a.	n.a.	n.a.	n.a.	0	0
(continuous, in number of occurrence)																
Indicative Targets 1/																
1. Ceiling on reserve money	85,656		85,584	Met	86,376		81,586	Met	91,329		92,432	Not met	92,312	93,968	102,155	100,314
2. Cumulative floor on state government tax collections 2/	97,783		92,929	Not met	20,031		21,968	Met	43,051		46,499	Met	71,142	106,653	106,102	21,496
3. Floor on cumulative state government spending on social assistance,																
Unified Monthly Benefit and Monthly Social Benefit programs 2/	5,322		5,424	Met	1,339		1,390	Met	2,678		2,813	Met	4,017	5,557	5,557	1,339
4. Ceiling on new nonconcessional external debt contracted or guaranteed	0		0	Met	0		0	Met	0		0	Met	0	0	0	0
by public sector (continuous, in millions of U.S. dollars) 4/																
5. Ceiling on introducing new and renewal of existing tax exemptions	0		0	Met	0		0	Met	0		1	Not met	0	0	2	n.a.
(continuous, in number of occurrence) 5/ 6/																

Sources: Kyrgyz authorities and IMF staff estimates and projections.
1/ As defined in the TMU.
2/ Cumulative from beginning of the year.
3/ Agreed during the April negotiations to switch the IT to a QPC.
4/ External debt contracted or guaranteed with a grant element of less than 35 percent.
5/ A VAT exemption on private schools and personal income tax exemption for the financial police were granted, respectively, in Q2 and Q4.
6/ IT until becoming a QPC by the Executive Board during the fourth and fifth reviews board meeting.

Table 2. Kyrgyz Republic: Prior Actions and Structural Benchmarks under the Extended Credit Facility

Measures	Timing	Status
Prior Actions	***5 business days prior to the board meeting***	
Amend the Tax Code to restore VAT on wheat and flour effective January 1, 2018.		
Submit to Parliament amendments to the Banking Law to reintroduce key provisions on (i) governance and oversight, particularly to introduce majority of non-executive membership in the board of the NBKR; and (ii) lending to non-supervised institutions.		
Submit changes to the draft 2018 Budget Law to replace articles 7.1 and 7.3 with a direct reference to the relevant articles in the Budget Code.		
Submit changes to the draft amendments to the Procurement Law currently under consideration in Parliament to (i) limit the special procedures for joint stock companies with state majority to shortening procurement period requirements; (ii) remove proposals that broaden the scope for the Government of the Kyrgyz Republic and the authorized government agency for state material reserves to engage in direct contracting beyond the conditions set out in the existing Procurement Law of the Kyrgyz Republic; and (iii) maintain mandatory publication of the contract awards in all cases except those related to national security and defense.		
Structural Benchmarks		
I. FISCAL POLICY		
Set up a comprehensive register of all employees of the general government.	End-March, 2017	**Not met**
Relying on the action plan to reform personnel and remuneration policy, identify quantitative measures to reduce the wages bill to 8.8 percent of GDP in 2018.	End-May, 2017	**Not met 1/**
Sign the FMIS terms of reference.	End-May, 2017	**Not met**
Introduce a standardized framework for project monitoring of physical and financial performance for all externally and domestically financed projects exceeding 50 million soms.	End-June, 2017	**Not met**
Finalize the review and the action plan to reduce subsidies.	End-July, 2017	**Met**
Sign the contract with the IT provider for the FMIS project.	End-September, 2017	**Not met**
Introduce a standardized framework for project monitoring of physical and financial performance for all externally and domestically financed projects exceeding 50 million soms.	End-December, 2017	**Revised deadline**
Develop a framework for the formal appraisal for all externally and domestically financed projects (exceeding 50 million soms) prior to selection, with the nature of the appraisal tailored to the size of the project and sector.	End-December, 2017	**New**
Submit to Parliament proposals listed in table 3 of this LOI under tax policy, totaling 0.4 percent of GDP, including eliminating tax exemptions on some goods and services, raising excise rates, and expanding the tax base.	End-January, 2018	**New**
Prepare an analysis of the 20 largest tax exemptions in terms of revenue impact on the budget, including concrete proposals to streamline them.	End-February, 2018	**New**
Based on a headcount analysis, adopt the relevant government decision or resolution to cut the ceiling for state and local administrative staff and subordinated institutions by 10 percent to be implemented by September 2018.	End-March, 2018	**New**
Adopt a new medium-term tariff strategy with the intention of restoring the financial sustainability of the energy sector by adjusting energy prices to close the gap between the energy price and the cost recovery level for all energy users starting in 2018.	End-March, 2018	**New**
Submit to Parliament amendments to the Budget Code to include the fiscal rule, and to more clearly specify the conditions for emergency appropriations and reallocation of resources within the budget envelope.	End-March, 2018	**New**
Submit to Parliament amendments to the recently adopted law on "State Subsidies of the Kyrgyz Republic" (universal child allowance) to restore targeting of the most vulnerable.	End-May, 2018	**New**
II. FINANCIAL SECTOR		
Develop a strategic plan for supervision with the following components: (i) personnel policy to attract and retain qualified personnel, and decrease personnel turnover rate; (ii) training of supervisors to ensure that staff is familiar with the NBKR's supervisory approach and to improve their technical ability; (iii) enhancing the supervisory approach, including implementation of the risk-based supervision; and (iv) strengthening the current regulatory framework and bringing it line with international standards.	End-December, 2016	**Met**
Approve by the NBKR Board regulations for: (i) classifying restructured loans, which will result in abolishing the prolonged loans category; and (ii) refinancing of classified loans.	End-March, 2017	**Met**
DEBRA to submit to the courts requests for liquidating the following banks: "Kyrgyzagroprombank" banks, "Manas", "Issyk-Kul", and "AUB" banks.	End-March, 2017	**Not met**
Circulate to ministries for review amendments to the Banking Law to reintroduce the missing provisions regarding: (i) governance and oversight, including the NBKR's Board composition; (ii) judicial review and nonsuspension of the NBKR's decisions; (iii) powers of the NBKR in the resolution process and liquidation process; and (iv) lending to non-supervised institutions.	End-April, 2017	**Met**
Revise and enact regulations to preserve the main requirement for lending to related parties.	End-May, 2017	**Met**
Submit to Parliament amendments to the Banking Law to reintroduce the missing provisions regarding: (i) governance and oversight, including the NBKR's Board composition; (ii) judicial review and nonsuspension of the NBKR's decisions; (iii) powers of the NBKR in the resolution process and liquidation process; and (iv) lending to non-supervised institutions.	End-July, 2017	**2/**
DEBRA to submit to court a request for liquidating "AUB" bank.	End-February, 2018	**New**
Resubmit to Parliament the draft AML/CFT law in line with international standards.	End-March, 2018	**New**
Enact amendments to the Banking Law to reintroduce the missing provisions regarding: (i) governance and oversight, particularly to introduce majority of non-executive membership in the board of the NBKR; and (ii) lending to non-supervised institutions.	End-March, 2018	**Revised 3/**
DEBRA to submit to court requests for liquidating "Manas" and "Issyk-Kul" banks.	End-May, 2018	**New**

Source: IMF staff.

1/ The action plan was completed with one-month delay as agreed during the April mission.

2/ Given that the measure is unconstitutional due to the unconstitutionality of a provision requiring judicial review and nonsuspension of the NBKR's decisions, this end-July 2017 structural benchmark is not being assessed for program purposes.

3/ Proposed to remove from this benchmark, established previously as a December SB under the third review, two provisions regarding (a) judicial review and nonsuspension of the NBKR's decisions which is unconstitutional, and (b) powers of the NBKR in the resolution process and liquidation process which is no longer necessary given provisions under the current Banking Law.

Table 3. Kyrgyz Republic: Fiscal Measures to Close the Gap

Type of Measure	Details	In percent of GDP 2017	2018
Tax policy		**0.3**	**0.4**
	Revise VAT applicable to certain types of exports.		
	Establishment of rates for export customs duties for shell limestones and harmonize of FEZ with EEU.		
	Raise excise rates on alcohol.		
	Introduce labels for some Kyrgyz clothing items to reduce the informal economy.		
	Introduce a minimum level of target prices for imports from EEU.		
	Cancel tax exemptions in the context of the harmonization with the EEU.		
	Introduce a deposit payment for import of alcohol from EEU countries		
	Increase revenues by reforming special means		
	Increase functional coefficient for property tax		
	Cancel sales tax exemption for kindergarten and medical institution		
	Prevent from extending profit tax and VAT exemption of processed agricultural products		
	Reverse VAT for non residents for services		
	Cancel inefficient income tax exemption for individual working for religious organizations		
	Eliminate voluntary patent regime for importer to move to regular regime		
	Cancel exemption on sales tax for agriculture producers and cooperatives		
	Limit the deductions from cash expenditure from the sales tax		
	Introduce excise on natural gas (liquefied fuel compressed hydrocarbon) used as automotive fuel.		
	Tax JSC profits, which have been undistributed for more than 3 years		
	Revise the method of determining gold concentrate to assess the tax base		
Tax administration		**0.7**	**0.5**
	Strengthen VAT administration for entrepreneurs by introducing electronic invoices and simplifying procedures		
	Strengthen administration of tax collection on a patent basis from cargo and passenger carriers by carrying joint inspection of the road patrol and STS.		
	Improve customs payments through harmonization procedure, closer relationships with third countries and better information system.		
	Fight against violation of customs duties and illegal imports of goods and vehicles, and collection of arrears by improving the monitoring of operations and procedures and pursuing unscheduled inspections.		
	Improve administration of tax and non tax payments by increasing the number of scheduled and non scheduled audits.		
	Speed up litigation cases.		
	Speed up the collection of tax arrears.		
	Remove prohibition of tires imports from third countries		
	Improve tax collection from the tourism sector		
	Improve tax administration from the service sector and special tax regimes, and construction sector		
	Increase collection of trash removal fees		
	Put new factory into operation (Textile Trans LLC)		
	Mobilize additional insurance contributions from legal entities, individual entrepreneurs and farmers households		
	Introduce voluntary patents for services provided during the elections campaign		
	Improve regulation of the alcohol sector by increasing supervision on production		
	Improve local tax administration collection by transferring the collection to local administration		
	Improve collection of insurance contributions from legal entities, individual entrepreneurs, and farmers		
	Carry out investigations to identify violations and crime related to tax evasion		
	Setting up service centers at the border		
	Record income tax at the source based on minimum income		
	Increase electronic fiscalization by setting up e-invoice, online cash registries, and e-filing		
PFM		**0.3**	**0.3**
	Improve efficiency of the payment system through savings in procurement operations.		
	Introduce an e-trade website		
Expenditure		**0.7**	**0.4**
	Streamline of non priority goods and services.		
	Reduce domestically financed capital expenditure.		
	Reduce contribution to state budgetary reserve		
	Reallocation of extra funding on wages and salaries		
	Refunding of unused funds from local budgets (stimulating grant)		
Nontax revenues		**0.2**	**0.3**
	Higher dividend from SOEs and government shares in different companies.		
	Implement an electronic trading platform		
	Proceeds from privatization.		
	Introduce an annual fee for numbers allocated by state communication agency		
	Reimbursement of taxes from criminal procedures and fraud.		
	Develop legislation on sales and lease of municipal property		
	Increase the share of NBKR profit to the government		
	Increase non tax revenue from adopting the non tax revenue Code		
	Increase the rate of non tax payment for work permit for foreign citizens		
	Increase fines from traffic rule violation due to installation of camera in the context of the safe city initiative		
	Total	**2.2**	**2.0**
	of which permanent	1.0	1.8
Memo item:			
2017 Nominal GDP	488.7		
2018 Nominal GDP	523.6		

Sources: Authorities data and IMF staff calculations.

Attachment I. Technical Memorandum of Understanding (TMU)

December 1, 2017

Introduction

This memorandum defines the quantitative performance criteria, indicative targets and adjustors, and establishes the content and frequency of the data to be provided to IMF staff for program monitoring related to the economic program supported by an arrangement under the Extended Credit Facility (ECF). The indicators presented in Table 1 of the Letter of Intent dated December 1, 2017 reflect the understandings on quantitative performance criteria reached between the authorities of the Kyrgyz Republic and staff of the IMF.

Performance Criteria and Indicative Targets

Definitions and Concepts

1. Test dates. Quantitative performance criteria are set semi-annually starting June 30, 2015 through December 31, 2017, and are to be met at the end of each period.[1]

2. National Bank of the Kyrgyz Republic (NBKR). The NBKR is the central bank of the country and is responsible for the formulation and implementation of monetary policy, bank supervision, and the payment system. For the purpose of the program, the NBKR includes all its central and regional offices.

3. Public sector. For the purpose of the program, the public sector comprises the general government, the NBKR, the 10 largest nonfinancial public enterprises (enterprises and agencies in which the government owns more than 50 percent of the shares, but which are not consolidated in the budget, as listed in Table 1), and any other newly created public development institution. The State budget comprises central and local government budgets. The general government budget includes the State and Social Fund budgets.

4. Foreign-financed Public Investment Program (PIP) loans and grants. The foreign financed PIP is a program of investments in infrastructure and social sectors agreed by the general government of the Kyrgyz Republic and its donors (including but not limited to international financial organizations). The PIP is fully financed by related grants and loans.

5. Program loans and grants are loans and grants received by the general government for direct budget support from external donors and not related to PIP financing.

[1] The TMU paragraphs are numerated as of December 1, 2017.

6. **The stock of external payment arrears** for program monitoring purposes is defined as the end-of-period amount of external debt service due and not paid within the grace period specified in the relevant debt contract, including contractual and late interest. For arrears to exist, a creditor must claim payment of amounts due and not paid. Amounts in dispute are not considered arrears. Arrears for which a clearance framework/rescheduling or restructuring has been agreed with the creditor are not considered arrears for program monitoring purposes. Program arrears would include any debt service due under such agreements that have not been paid.

7. **Concessional and nonconcessional debt.** Concessional debt is defined as debt with a grant element equivalent of 35 percent or more. The grant element of a debt is the difference between the present value (PV) of the debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent. The debt refers also to commitments contracted or guaranteed and for which value has not been received. The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees. The calculation is performed by the authorities and verified by the IMF staff based on the data provided by the authorities.

8. **Variable interest rate.** For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD LIBOR is 3.34 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -250 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -300 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -100 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD LIBOR is -200 basis points.[2] Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added.

9. **Valuation changes (program exchange rates).** For program monitoring, U.S. dollar–denominated components of the NBKR's balance sheets will be valued at the program exchange rates. The program exchange rate of the KGS to the U.S. dollar is set as of February 17 of 2015 exchange rate of KGS 60.7523 = US$1. The corresponding cross exchange rates and program gold price for the duration of the program are provided in Table 2.

Quantitative Performance Criteria

Floor on Net International Reserves of the NBKR in Convertible Currencies

[2] The program reference rate and spreads are based on the "average projected rate" for the six-month USD LIBOR over the following 10 years from the Fall 2014 World Economic Outlook (WEO).

Definitions

10. Net international reserves (NIR) of the NBKR. The floor on NIR will be calculated as the difference between total international reserve assets and total international reserve liabilities of the NBKR in convertible currencies. Total international reserve assets of the NBKR are defined as the NBKR holdings of monetary gold, holdings of SDRs, reserve position in the IMF, and any holdings of convertible foreign currencies in cash or with foreign banks, and debt instruments issued by nonresidents that are liquid. For program purposes, convertible foreign currencies refer only to U.S. dollar, Euro, British Pound, Japanese Yen, Swiss Franc, Australian Dollar, and Canadian Dollar. Accrued interest on deposits, loans, and debt securities are included in reserve assets and liabilities, correspondingly. Reserve assets pledged as collateral or otherwise encumbered, capital subscriptions in foreign financial institutions, deposits of resident financial institutions (commercial banks and the Russia-Kyrgyz Development Fund) in foreign currency and illiquid assets of the NBKR are excluded from NIR. Also excluded are net forward positions, defined as the difference between the face value of foreign-currency denominated NBKR off-balance sheet claims on nonresidents and foreign currency obligations to both residents and nonresidents. Total international reserve liabilities of the NBKR in convertible currencies are defined as the sum of Kyrgyz Republic's outstanding liabilities to the IMF and other convertible currency liabilities to nonresidents with an original maturity of up to and including one year. NIR is not affected when foreign assets are received by the NBKR through foreign currency swaps with resident and non-resident financial institutions. Total international reserves and NIR decline with the provision of foreign assets by the NBKR through foreign currency swaps with resident financial institutions and non-resident institutions.[3] For program monitoring purposes, total international reserve assets and liabilities will be valued at the program exchange rates as described in paragraph 9. Thus calculated, the stock of net international reserves in convertible currencies amounted to US$ 1,643 million on September 30, 2017.

11. Net foreign assets (NFA) of the NBKR. NFA consist of net international reserve assets plus other net foreign assets, including other net claims on CIS countries, reserve assets pledged as collateral or otherwise encumbered, capital subscriptions in foreign financial institutions, illiquid assets, and obligations of the NBKR on SDR allocation. For program monitoring purposes, other NFA will also be valued at program exchange rates.

Adjustors

The floor on NIR will be adjusted upward/downward to the full extent of any excess/shortfall in program and other grants and program loans, as given in Table 3 and upward/downward full

12. extent that amortization and interest payments of public external debt is less/more than the amortization and interest payments given in Table 3.

[3] In case of a currency swap providing for receipt of foreign exchange by the NBKR and transfer of domestic currency to a resident financial institution, total international reserves increase, NIR remain unchanged, and net claims on domestic banks in soms increase. In case of a currency swap providing for transfer of foreign exchange by the NBKR and receipt of domestic currency from a resident financial institution, total international reserves and NIR decrease, and net claims by NBKR on domestic banks remain unchanged.

Ceiling on the Net Domestic Assets of the NBKR

Definitions

13. Net domestic assets of the NBKR (NDA) are defined as reserve money of the NBKR (defined below), minus NFA as defined above. Items in foreign currencies will be valued at program exchange rates.

14. Thus defined, NDA consist of (a) net claims to the general government from the NBKR; (b) net claims to other depositary corporations by the NBKR; (c) net claims on other financial corporations; and (d) all other net assets of the NBKR (other items net). Thus defined, the stock of NDA amounted to minus KGS 11,563 million on September 30, 2017.

Adjustors

15. The ceiling on NDA will be adjusted downward/upward to the full extent of any excess/shortfall in program and other grants and program loans, as given in Table 3 and downward/upward to the full extent that amortization and interest payments of public external debt is less/more than the amortization and interest payments given in Table 3. The ceiling on NDA will be adjusted downward/upward to the full extent of any excess/shortfall of the Russia-Kyrgyz Development Fund net flows given in Table 3a.

Ceiling on the Cumulative Overall Cash Deficit of the General Government Budget

Definitions

16. The overall cash deficit of the general government budget will be measured from the financing side (below the line) as the net cash inflow from financing activities, defined as the net incurrence of liabilities minus the net acquisition of financial assets other than cash. These will be measured at current exchange rates and will be defined as the sum of:

- The change in the stock of net claims of the domestic banking system and nonfinancial institutions and households on the general government. The change in the stock of net claims of the domestic banking system on the general government is defined as the change in the stock of the banking system claims on the general government, less the change in the stock of all deposits of the general government with the banking system. The claims of the banking system on the general government include: bank loans to the general government; any securities issued by the general government and held by domestic banks and overdrafts on the current accounts of the general government with banks;
- The change in the stock of net claims of foreign governments, banking systems, and nonfinancial institutions and households on the general government;
- Net transactions in equity, i.e., any new sales net of purchases of shares;

- Net foreign loans disbursed to the general government for budgetary support; and
- Net foreign loans disbursed to the general government for PIP financing.

17. The quantitative performance criteria for the fiscal balance are calculated on the projected exchange rate. Reporting and adjustments, as defined above, will be made using current exchange rates.

Adjustors

18. The ceiling on the cumulative overall cash deficit of the general government budget will be adjusted downward to the full extent of any excess in program grants, as given in Table 3. The ceiling on the cumulative overall cash deficit of the general government budget will be adjusted downward to the full extent of any shortfall in program loans, as given in Table 3 and upward/downward to the full extent that PIP loans are more/less than PIP loans given in Table 3.

Ceiling on the present value of new external debt contracted or guaranteed, and accumulation of new external payment arrears by the public sector (continuous quantitative performance criteria).

Definitions

19. **Debt.** In connection with the contracting or guaranteeing of short-, medium-, and long-term external debt by any entity of the public sector, for program purposes, the definition of debt is set out in Executive Board Decision No. 6230–(79/140), as amended by Decision No. 15688–(14/107), point 8, adopted December 5, 2014, and reads as follows:

- For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms; the primary ones being as follows:

- Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

- Suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
- Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected

service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

- Under the definition of debt set out in point 8 (a) in the above mentioned Executive Board Decision, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

20. For program purposes, external debt is defined based on the residency of the creditor, and the RKDF is not considered as an external creditor.

21. **External debt ceilings.** A performance criterion (ceiling) applies to the present value (PV) of new external debt, contracted or guaranteed by the public sector with original maturities of one year or more. The ceiling applies to debt contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended. The ceiling is subject to an adjustor defined below.

22. An adjustor of up to 5 percent of the external debt ceiling set in PV terms applies to this ceiling, in case deviations are prompted by a change in the financing terms (interest, maturity, grace period, payment schedule, upfront commissions, management fees) of a debt or debts. The adjustor cannot be applied when deviations are prompted by an increase in the nominal amount of total debt contracted or guaranteed.

23. **Exclusions from the external debt limits.** Disbursements by the IMF are excluded from the ceilings on external debt. Also excluded from external debt ceilings is the contracting or guaranteeing of new external debt that constitutes a rescheduling or refinancing of existing external debt on the terms more favorable to the debtor.

24. **Guarantees.** For program purposes, the guarantee of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or from any implicit legal or contractual obligation of the public sector to finance partially or in full a shortfall incurred by the debtor.

25. **New external payments arrears.** The ceiling on accumulation of new external payments arrears is a continuous quantitative performance criterion.

Ceiling on newly introduced or renewed tax exemptions

26. A performance criterion applies to any change in law, or regulation, that expands the eligibility for, or value of, existing tax deductions, exemptions, or credits, or introduces new tax deductions, exemptions, or credits, or reduces tax rates, or reduces the number of taxpayers subject to tax.

Indicative Targets

Ceiling on reserve money

27. **Reserve money** is defined as the NBKR's national currency liabilities to the economy, which includes currency issued and liabilities to other depositary corporations.

Cumulative floor on state government tax collections

28. Tax collections in cash correspond to the line "Tax Receipts" in the Treasury Report and comprise the following categories: tax on income and profits; taxes on goods and services; specific taxes on services; turnover taxes; taxes on property; taxes on international trade; and other taxes. Tax collections include collections of tax arrears but exclude tax offsets.

Cumulative floor on state government spending on social assistance

29. Social assistance spending comprises state government spending on Unified Monthly Benefit (UMB) and Monthly Social Benefit (MSB) programs.

Ceiling on the new Non-Concessional External Debt Contracted or Guaranteed

30. An indicative target applies to the contracting or guaranteeing by the public sector of non-concessional external debt, i.e. external debt with grant element of less than 35 percent, except normal short-term import-related credits and the NBKR international reserve liabilities.

Reporting Requirements Under the Arrangement

31. The government and the NBKR will provide the IMF with the necessary economic and financial statistical data to monitor economic developments and the quantitative targets (see Table 4). In particular, the government and the NBKR will provide the following specific information.

Analytical Balance Sheet of the NBKR

32. The NBKR will provide to the IMF its analytical balance sheet on a daily basis. The information provided will clearly identify the following items in the definitions specified above: the net foreign assets of the NBKR; the net international reserves of the NBKR; total reserve assets and total reserve liabilities of the NBKR ; the net domestic assets of the NBKR; net credit from the NBKR to the general government, disaggregated by state government and special funds of the KR; net credit from the NBKR to other deposit corporations and other financial corporations (including Russia-Kyrgyz Development Fund); other items net; and reserve money. The balance sheet will be provided using both actual and program exchange rates. The above information will be provided to the IMF Resident Representative and/or transmitted by e-mail to the IMF.

Monetary Survey

33. Monthly banking system data, in the form of monetary surveys of the banking sector and other depository corporations, will be reported to the IMF by the NBKR within 16 days of the end of the month. The information provided will clearly identify the following items: net foreign assets and net domestic assets of the banking system, net credit from the banking system to the general government disaggregated by the state government, and the social fund, net claims to the rest of the economy, other items net, and broad money. The monetary survey will be provided using both program and actual exchange rates. In light of the limited coverage of the RKDF activities in the monetary survey, the NBKR in accordance with the MOU will exert the best efforts to ensure that the IMF has access to the macro-critical information.

34. The NBKR will provide monthly data to the IMF within seven days after the end of the month on the amount of holdings of treasury bills, treasury bonds and other securities issued by the state government, differentiated by the following categories of holders: the NBKR; resident banks; resident nonbanks (including separately the social fund and deposit protection agency); and nonresidents. The information will be provided in both the book (nominal) value and the actual value, where applicable.

International Reserves and Key Financial Indicators

35. The NBKR will provide monthly data within 20 days from the end of the month on its gross and net international reserves within the framework of reporting "International Reserves and Foreign Currency Liquidity" (IMF's SDDS). The report on foreign assets and liabilities by currency will be provided 20 days after the end of each quarter. These data will be provided at two alternative sets of the exchange rates and the gold price: first, at those used to derive the NFA position in the NBKR accounts; and second, at those specified in the program (see Section I). The NBKR will also provide data on net foreign financing flows, including disbursements of program loans and grants, amortization, interest payments on external debt, interest income on reserves, other direct foreign currency payments by the government and the NBKR. In addition, reports should be sent to the IMF on nominal exchange rates (including the official and interbank exchange rates), foreign exchange interbank market turnover, and the volume of NBKR foreign exchange sales and purchases in the domestic interbank market and with other parties, on a daily basis. Reports on treasury bill yields and the amount of treasury bill sales and redemptions on a weekly basis every Monday. On the twenty-fifth day of the month following the reference month, the NBKR will provide indicators of financial soundness of the banking system, including the ratios of regulatory capital to risk-weighted assets, nonperforming loans to total loans, nonperforming loans by sector and by currency, restructured and prolonged loans by sector and by currency, return on equity, liquidity, earning and profitability, loans and deposits ratios in domestic and foreign currency, foreign currency exposure and dollarization as well as data on bank deposits and loans by maturity and sector, and bank deposit and lending rates by maturity. On the twentieth day of the month following the reference quarter the NBKR will provide data on nonperforming loans for micro-finance organizations and credit unions.

External Debt

36. The ministry of finance, together with the NBKR, will provide monthly information on the disbursements, principal and interest payment—both actual and falling due—on contracting and guaranteeing of medium- and long-term external loans by the state government, nonfinancial public enterprises, and the NBKR; and any stock of outstanding arrears on external debt service payments within 21 days of the end of each month. In addition, the ministry of finance will report the total amount of outstanding government guarantees and external arrears on a monthly basis. While the NBKR will provide the debt service payment data on private debt, the ministry of finance will provide data on debt service on public and publicly guaranteed loans.

Budgetary and Extra Budgetary Data

37. In addition to the monthly treasury report, the Social Fund will report monthly on its operations. This information will be provided to the Fund staff within 26 days from the end of each reference month. The ministry of finance will also provide monthly reports on the disbursements and use under the public investment program and budgetary grants with a one-month time lag, as well as any new or renewed tax exemption, including its quantification.

Balance of Payments Data

38. The NBKR will provide current account and capital account data, including data on foreign trade, services, official and private transfers, foreign investment, and disbursements of public and private loans, on a quarterly basis, with at most a three-month lag. The NBKR will also provide monthly foreign trade data with a two-month lag.

Other General Economic Information

39. The National Statistics Committee will notify the IMF of the monthly Consumer Price Index by category by the fifteenth business day of the following month, and convey monthly GDP estimates within 30 days of the end of each month.

Table 1. Kyrgyz Republic: Ten Largest State Owned Enterprises (SOEs)
(Included in the public sector)

	Name of SOE
1	JSC "KyrgyzAltyn"
2	JSC "KyrgyzNefteGaz"
3	JSC “Electrical Stations”
4	JSC “National Electrical Grid of Kyrgyzstan”
5	JSC “Manas International Airport”
6	JSC "KyrgyzTelecom"
7	JSC "SeverElectro"
8	SOE “National Company Kyrgyz Temir Jolu”
9	JSC "OshElectro"
10	JSC "BishkekTeploset"

Sources: Authorities data and IMF staff calculations.

Table 2. Kyrgyz Republic: Program Cross Exchange Rates and Gold

Abbreviation	Currency Name	Currency/US$	US$/Currency
AUD	Australian Dollar	1.2926	0.7736
AMD	Armenian Dram	479.6865	0.0021
CAD	Canadian Dollar	1.2525	0.7984
CNY	Chinese Yuan	6.2477	0.1601
CNH	Chinese Yuan	6.2517	0.1600
JPY	Japanese Yen	119.0568	0.0084
KZT	Kazakh Tenge	185.0512	0.0054
KWT	Korean won	1,100.5851	0.0009
KWD	Kuwati dinar	3.3824	0.2956
KGS	Kyrgyz Som	60.7523	...
NOK	Norweigan Crown	7.6020	0.1315
RUB	Russian Ruble	62.6635	0.0160
SAR	Saudi Rial	4.6076	0.2170
SGD	Singapore Dollar	1.3585	0.7361
SEK	Swedish Crown	8.4426	0.1184
CHF	Swiss Franc	0.9293	1.0760
AED	UAE Dirham	3.6779	0.2719
GBP	UK Pound Sterling	0.6508	1.5366
SDR	SDR	0.7096	1.4092
XAG	Silver	0.0579	17.2700
BYN	Belarusian Ruble	1.5318	0.6528
EUR	Euro	0.8757	1.1420
XAU	Gold (US$/troy ounce)	1,229.2500	...

Sources: Authorities data and IMF staff calculations.

Table 3a. Kyrgyz Republic: Projected Budget Support, PIP and Amortization 1/
(In millions of U.S. dollars)

	2017			2018
	June	September	December	March
	Act.	Proj.	Proj.	Proj.
Program grants	37.0	63.0	114.4	12.8
Program loans	0.0	0.0	0.0	12.0
Grants in-kind	30.6	61.3	91.9	0.0
PIP grants excl. grants in-kind	22.8	43.8	87.8	36.0
PIP grants incl. grants in-kind	53.5	105.1	179.6	36.0
Other grants	0.0	0.0	0.0	0.0
PIP loans	48.7	138.1	282.2	85.3
PIP loans, excl. onlending	40.8	81.0	185.4	59.2
Amortization of public external debt	19.9	39.5	61.0	20.6
Interest payments	12.2	29.0	40.9	16.7

Sources: Kyrgyz authorities and IMF staff estimate.
1/ Data for 2017 are cumulative since the latest available actual data (June, 2017). Data for 2018 are cumulative starting March.

Table 3b. Kyrgyz Republic: Projected Flows of the Russia-Kyrgyz Development Fund
(In millions of U.S. dollars)

	2017	2018
	December	March
Inflows	-1.0	-0.5
Lending	0.0	0.0
Net	-1.0	-0.5

Sources: Kyrgyz authorities and IMF staff estimate.

Table 4. Kyrgyz Republic: Reporting Requirements and Frequency Under the Arrangement

Reporting Agency	Data	Frequency	Timing
NBKR	Analytical balance sheet of NBKR at actual and program exchange rates	Daily	The following working day
NBKR	Monetary surveys of the banking sector and other depository corporations at actual and program exchange rates	Monthly	Within 16 days of the end of each month
NBKR	The amount of holdings of treasury bills, treasury bonds and other securities issued by the state government	Monthly	Within 7 days of the end of each month
NBKR	The gross and net international reserves Net foreign financing flows	Monthly	Within 20 days of the end of each month
NBKR	Reserve composition by currency and instrument	Quarterly	Within 10 days of the end of each quarter
NBKR	Nominal exchange rates Foreign exchange interbank market turnover Volume of NBKR foreign exchange sales and purchases in the domestic interbank market on a daily basis	Daily	The following working day
NBKR	Treasury bill yields and the amount of treasury bill sales and redemptions, and operations with other parties	Weekly	Every Monday
NBKR	Balance sheet and income statement of banks (aggregated); data on capital assessment of the commercial banks and the data on the main factors of the loan portfolio's growth of the banking system and separately of the group of banks with a significant share of the Kazakh capital	Monthly	Within 25 days of the end of each month
NBKR	Balance sheet and income statement by individual bank and banking groups; sectoral distribution of loans and NPLs by currency and by bank; restructured and renewed loans; largest exposures by bank; loan classification by banks and by groups;	Monthly	Within 25 days of the end of each month
NBKR	Nonperforming loans for microfinancing organization and credit unions	Quarterly	Within 20 days of the end of each quarter
NBKR	Indicators of financial soundness of the banking system (capital adequacy, liquidity, asset quality, earning and profitability, loans and deposits ratios, foreign currency exposure and dollarization)	Monthly	Within 25 days of the end of each month
State Property Fund	Balance sheets of the 10 largest SOEs	Annually	Within 135 days after the end of the year
MOF	Revenues, expenses , net lending and on-lending of financial assets and liabilities of the central government	Monthly	Within 26 days of the end of each month
MOF NBKR	Disbursements, principal and interest payment (external debt) Contracting and guaranteeing of medium- and long-term external loans Any stock of outstanding arrears on external debt service payments Total amount of outstanding government guarantees and external arrears	Monthly	Within 21 days of the end of each month
MOF	Details (amount, currency, and financing terms) on new loans contracted on public external debt, including SOEs.	Quarterly	Within 25 days of the end of each quarter
Social Fund	Social Fund budget execution report	Monthly	Within 30 days of the end of each month
MOF	Disbursements and use under the public investment program, budgetary grants, and grants in kind.	Monthly	Within 30 days of the end of each month
NBKR	Current account and capital account data	Quarterly	Within 90 days of the end of each quarter
NBKR	Foreign trade data	Monthly	Within 60 days of the end of each month
NBKR	Remittances by country of origin and currency.	Monthly	Within 45 days of the end of each month
NSC	Consumer Price Index by category	Monthly	Within 15 days of the end of each month
NSC	GDP	Monthly	Within 30 days of the end of each month

Source: IMF staff.

KYRGYZ REPUBLIC

December 4, 2017

FOURTH AND FIFTH REVIEWS UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

Prepared By

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

CONTENTS

RELATIONS WITH THE FUND

(As of October 31, 2017)

Membership Status: Joined: May 8, 1992 Article VIII

General Resources Account:	**SDR million**	**Percent of Quota**
Quota	177.60	100.00
Fund Holdings of Currency (Exchange Rate)	177.54	99.96
Reserve Tranche Position	0.08	0.05

SDR Department:	**SDR million**	**Percent Allocation**
Net Cumulative Allocation	84.74	100.00
Holdings	126.11	148.83

Outstanding Purchases and Loans:	**SDR million**	**Percent of Quota**
ESF Arrangements	11.66	6.56
RCF Loans	13.32	7.50
ECF Arrangements	103.96	58.54

Latest Financial Arrangements:

Type	**Date of Arrangement**	**Expiration Date**	**Amount Approved (SDR million)**	**Amount Drawn (SDR million)**
ECF	April 8, 2015	April 7,2018	66.60	38.06
ECF	June 20, 2011	July 7, 2014	66.60	66.60
ESF	December 10, 2008	June 9, 2010	66.60	33.30

Projected Payments to the Fund [1/]

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

			Forthcoming		
	2017	2018	2019	2020	2021
Principal	7.33	20.68	17.52	18.71	17.13
Charges/Interest		0.00	0.00	0.00	0.00
Total	7.33	20.68	17.53	18.71	17.13

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

Status of HIPC and MDRI Assistance

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

Safeguards Assessments

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

Exchange Rate Arrangements

The currency of the Kyrgyz Republic has been the som (100 tyiyn = 1 som) since May 15, 1993. The de jure exchange rate arrangement is floating arrangement. The NBKR participates and intervenes in the interbank foreign exchange market to limit exchange rate volatility as necessary. The de facto exchange rate arrangement is classified as other managed arrangement. The NBKR publishes daily the exchange rate of the som in terms of the U.S. dollar, which is determined in the interbank foreign exchange market. The official exchange rate of the som against the dollar is calculated as the daily weighted average of the exchange rates used in the purchase and sale transactions of dollars conducted in the foreign exchange market through the Trade Information Electronic System (TIES) of the NBKR for the reporting period from 3:00 pm of the previous trading day to 3:00 pm of the current trading day. The government uses the official exchange rate for budget and tax accounting purposes as well as for all payments between the government and enterprises and other legal entities. The Kyrgyz Republic maintains a multiple currency practice (MCP), which predates the arrangement, arising from the use of the official exchange rate for government transactions. The official rate may differ by more than 2 percent from market rates because it is based on the average transaction weighted rate of the preceding day. In practice, the official and market rates have never differed by more than 2 percent. The new trading software that is currently being tested will enable automatic matching and settlement of transactions and will eliminate the existing segmentation of the foreign exchange market. The software is expected to be rolled out to banks over the next few months and to remove the MCP. Staff does not recommend approval of this MCP.

Kyrgyz Republic maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions, except for the MCP discussed above and exchange restrictions maintained for security reasons relating to the restriction of financial transactions and the freeze of accounts of certain individuals or organizations associated with terrorism pursuant to (i) relevant U.N. Security Council resolutions; and (ii) the list of current terrorist organizations designated by the U.S. Secretary of State. The authorities have notified these measures to the Fund in May 2007.

Article IV Consultations

The Kyrgyz Republic is on the 24-month consultation cycle. The 2017 Article IV consultation discussions were held in April 2017 and were completed by the Executive Board in October 2017 (see Country Report No. SM/17/266).

FSAP Participation and ROSC Assessment

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

Resident Representative

The tenth resident representative of the Fund in the Kyrgyz Republic, Mr. Said, took his post in Bishkek in March 2016.

RELATIONS WITH THE WORLD BANK GROUP

(As of November 13, 2017)

The World Bank has launched the preparation of the Systemic Country Diagnostic (SCD) and Country Partnership Framework (CPF) for FY18-22. The SCD is being finalized and will provide analytical foundation for the new CPF. The CPF is scheduled for the Board delivery in May 2018.

World Bank Program: Since the Kyrgyz Republic joined the World Bank in 1992, the Bank has approved $1.5 billion for the International Development Association (IDA) funded projects and Recipient Executed Trust Funds (RETF), out of which $1.19 billion has been disbursed. Fifty-two IDA investment operations for about $1.18 billion have been completed and closed, and eleven IDA investment operations for $228.45 million are ongoing.

Over 1992–2000, the Kyrgyz portfolio had a significant focus on budget support; however, there has been a gradual shift toward investment projects. To achieve macroeconomic stability in the country after the political turmoil in April 2010, the Kyrgyz government requested the Bank to provide budget support. There have been several budget support operations, including Programmatic Development Operation (DPO) series, since then.

Lending Program: Three country and two regional IDA investment operations have been scheduled for delivery in FY18. One operation – the Heat Supply Improvement Project ($46 million) – was delivered to the Board in October 2017. The rest four operations are scheduled for the Board in Q3-4: Enhancing Resilience in Kyrgyzstan ($20 million), CASA-1000 Community Support Program ($10 million), Central Asia Road Links – Phase 3 ($35 million IDA country allocation), Digital CASA ($20 million IDA country allocation).

Trust funds: In addition to the IDA portfolio, the Kyrgyz program includes a significant number of stand-alone and co-financing trust funds (TFs). The active RETFs Portfolio has a total value of about $96.7 million, out of which $40.2 million has been disbursed. Four sectors—Health, Education, Water, Environment and Natural Resources—receive most of the TFs. The largest trust funds are the Agriculture Productivity and Nutrition Improvement Project ($38 million equivalent), the Kyrgyz Global Partnership for Education ($12.7 million equivalent), the Swiss TF for the Kyrgyz Second Health and Social Protection Project ($11.9 million equivalent), the Kyrgyz Health Results-Based Financing ($11 million equivalent), the National Water Resources Management Project ($7.8 million equivalent), and the Integrated Forest Ecosystem Management ($4.1 million equivalent). TFs are mainly provided to co-finance IDA operations and to support capacity-building activities. The main bilateral contributors to the TFs have been Switzerland and Russia. Two large RETFs are being prepared for delivery in FY18 – Capacity Building in Public Financial Management – 2 ($ 3.014 million equivalent) and National Water Resource Management Project AF ($5.5 million equivalent).

Analytical advisory activities: These include, among others, capacity building to the Energy Regulator, tax reforms and gender, measuring seismic risk, efficient heating technologies, improving capacity in PFM, agribusiness value-chain development.

IFC Program: Since becoming a member of IFC in 1993, the Kyrgyz Republic's private sector has received commitments totaling more than $119.5 million from IFC's own funds to finance 38 long-term finance projects in the financial sector, including banking and microfinance, mining, agribusiness, as well as in the pulp and paper sectors. In addition, since its inception in 2007, IFC's Global Trade Finance Program has supported a total of $1.1 million in trade flows. As of September 31, 2017, IFC's committed portfolio stood at $8.1 million in the financial sector. IFC prioritizes activities aimed at improving the investment climate, increasing access to finance and promoting corporate governance, while at the same time exploring a greater role in energy efficiency and renewable energy and developing opportunities for public private partnerships jointly with IDA. In the banking sector, IFC aims to increase access to finance for MSMEs by improving regulatory framework, strengthening local financial institutions, expanding microfinance organizations, and providing financing for MSME financing to local banks. In the real sector, IFC aims to improve corporate business practices, while looking for emerging opportunities to invest across a variety of sectors, particularly in agribusiness, mining, and infrastructure.

IFC advisory programs implemented in the Kyrgyz Republic focus on: i) improving financial markets infrastructure, specifically credit information sharing systems and risk management; (ii) promoting institutional and capacity building of financial intermediaries; (iii) promoting microfinance and housing microfinance development; (iv) enhancing the investment climate and tax administration; (v) improving corporate governance of local companies, including SMEs, and succession planning; (vi) developing agri-finance and agricultural value chains with the focus on dairy; (vii) helping producers improve compliance to food safety standards; (viii) developing public-private partnership (PPP) projects, currently in the health sector; and (ix) developing the country's hydro potential.

MIGA Program: MIGA's current portfolio does not include any active projects in the Kyrgyz Republic. The last MIGA contract, financed by Austrian and Italian investors, supporting the country's manufacturing and services sector, expired in 2015.

ICSID: The Kyrgyz Republic is not a member of the ICSID (it signed the ICSID Convention in June 1995 but has to date not ratified it). However, the Kyrgyz Republic has been a party to three arbitration cases before the ICSID based on bilateral investment treaties and its investment law. They were initiated on the basis of the ICSID's Additional Facility, which can be used for cases where one of the parties is not a member of ICSID and which was referred to in the treaties and the investment law. One of the three cases concern a tourist resort and is currently pending before the ICSID. The other two cases are concluded: one of them was settled in 2015 and the other case awarded compensation to the investor claimant in 2009. The claimant has attempted enforcement in several jurisdictions, including Canada, France, and the U.S., but has, to our knowledge, been unable to recover the outstanding amount.

RELATIONS WITH THE ASIAN DEVELOPMENT BANK (ADB)

(As of October 31, 2017)

The Kyrgyz Republic joined ADB in 1994. ADB approved the current Country Partnership Strategy (CPS) 2013–17 for the Kyrgyz Republic in August 2013. The CPS is aligned with the National Sustainable Development Strategy, 2013–2017 approved by the President of the Kyrgyz Republic in January 2013 (NSDS). The overarching goal of the CPS is poverty reduction through inclusive economic growth. The CPS supports the government in addressing key constraints to growth and equitable access to economic opportunities. It focuses on: (i) public sector management for private sector development; (ii) transport and logistics, focusing on rehabilitation of a regional corridor and maintenance of the road network.; (iii) the energy sector, focusing on rehabilitating and upgrading a major hydropower plant, and institutional and technological reform to improve sector efficiency; (iv) education and training, focusing on improvement of the availability and quality of a skilled workforce, and employability of the population; and (v) water supply and sanitation (WSS), responding to the government's request and commitment to sector reform. ADB has been active in these areas and within each sector will focus more strongly on addressing regional disparities. The Country Operations Business Plan (COBP) 2018–2020 was endorsed by the Board in October 2017.

ADB is one of the major development partners in the country. The Kyrgyz Republic, a group A developing member country, is eligible for Asian Development Fund (ADF) grants and concessional ordinary capital resources lending (COL). The indicative ADF grant and COL resource allocation for 2018–2020 is $299.5 million, including $30 million from disaster risk reduction (DRR) operations.4 Cofinancing and funding from other sources, including the regional pool under concessional resources, will be explored. The 2016 debt distress classification of the Kyrgyz Republic was assessed to be at moderate risk of debt distress. In accordance with the ADF grants framework, the country is to receive 50 percent of its country allocation in grants in 2017, subject to a 20 percent volume discount on the grant portion of the country allocation. The indicative firm lending program for 2018–2020 is planned for $343.8 million and is subject to project readiness, and the nonlending program for $5.3 million of technical assistance (TA) grants. The final allocation will depend on available resources and the outcome of the country performance assessment. The private sector may access ADB's ordinary capital resources (OCR) for projects, which may include lending to key sectors such as energy, transport and logistics, and finance.

As of 31 October 2017, the country received $1,677.9 million consisting of 41 loans for $1,092.6 million and 34 grants for $585.3 million. About 20 percent ($345.0 million) of the total funding resources had been provided through fourteen program operations to support policy reforms and further socioeconomic development. In 2016, two projects and one program were approved: Central Asian Regional Economic Cooperation (CAREC) Corridors 1 and 3 Connector Road Project for $95.1 million (SDR 41.9 million loan and $36.7 million grant), Toktogul Rehabilitation Phase 3 Project for $108.6 million ($58.6 million loan and $50.0 million grant) and the Second Investment Climate Improvement Program (Second ICIP), Subprogram 2, for $25.0 million ($12.5 million loan and $12.5 million grant). The Emergency Assistance for Recovery and Reconstruction Project with a total approved size of $98.24 million was closed and the Second ICIP, Subprogram 2, became effective and the tranche released in December 2016.

As of 31 October 2017, the total portfolio included 13 projects totaling $653.1 million which were being implemented through 11 Asian Development Fund (ADF) loans ($360.3 million) and 14 ADF grants ($292.8 million) including one JFPR grant ($1.5 million). Of the overall portfolio, transport and energy sectors continue to be leading sectors in terms of ADB financing volume and number of projects, with 7 projects accounting for 76.2percent of the total active portfolio, 34.5 percent and 41.7 percent respectively. They are followed by public sector management projects and programs which accounts for 16.3 percent.

ADB has also provided 96 technical assistance (TA) projects amounting to $56.3 million as of today. ADB also provides TA through the regional technical assistance facility. Two Project Preparatory TAs were approved in 2017: TA Uch Kurgan Hydropower Plant Modernization for $1,1 million and TA Climate Resilience and Disaster Risk Reduction in Water Resources Management for $1,1 million.

The year-end performance of ADB's portfolio was satisfactory in 2016 with 82 percent projects on track. Contract awards and disbursements in 2016 reached $47 million and $61 million (47 percent and 170 percent of year's projections), respectively.

The Kyrgyz Republic is a strong advocate for regional economic cooperation, and is an active participant in the Central Asia Regional Economic Cooperation (CAREC) Program. The Kyrgyz Republic has benefited significantly from regional road development. Following CAREC initiatives in key areas approved at sector meetings, the Kyrgyz Republic is taking measures in trade policy and trade facilitation sectors to increase trade and transport flow. The reconstructed roads ensure safer and faster year-round travel to Kazakh, Tajik, and Chinese borders. Investments in energy will expand energy production and distribution. CAREC transport and trade facilitation projects are expected to support the government's goal of developing external trade activities. ADB is also helping to develop procedures and technical tools to enhance land acquisition and resettlement practices to foster more effective infrastructure development in the region.

As of 31 October 2017, cumulative sovereign official cofinancing in the Kyrgyz Republic amounted to $379.06 million. This figure comprises both contractual (including ADB-administered trust funds) and collaborative cofinancing. Total cumulative contractual cofinancing for the same period amounted to $161.56 million, of which $156.08 million is for 10 investment projects and $5.48 million is for 11 TA projects.

ADB private sector operations in the Kyrgyz Republic began in 2012 with the signing of a $10 million SME loan to the Kyrgyz Investment and Credit Bank. ADB's Trade Finance Program (TFP) fills market gaps in trade finance by providing guarantees and loans through over 200 partner banks in support of trade. In December 2012, three banks in the Kyrgyz Republic signed TFP agreements including Demir Kyrgyz International Bank, Kyrgyz Investment and Credit CJSC, and RSK Bank OJSC. In 2015, a $10 million Senior Unsecured Loan to Bai Tushum Bank for Broadening Access to Finance was approved.

The Kyrgyz Republic was selected as one of the pilot countries during the February 2003 Rome Conference on Harmonization. Since then key development partners have learned to better coordinate and harmonize procurement procedures, oversee financial management and monitoring, share project implementation units, and conduct joint country portfolio reviews.

ADB cooperates extensively with civil society organizations in the Kyrgyz Republic to strengthen the effectiveness, quality, and sustainability of the services it provides.

RELATIONS WITH THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

(As of November, 2017)

Overview of EBRD Activities to Date

The Bank has been actively supporting the transition in Kyrgyz Republic since 1995. From 1995 to the end of October 2017, the Bank signed 160 projects accounting for a net cumulative business volume of €665 million. The Bank's portfolio amounted to €251 million in 64 active projects. The current private sector portfolio ratio (as a percentage of the total portfolio) is 59 percent which is in line with the 60 percent mandated ratio.

On 25 February 2015, the EBRD Board of Directors approved a new country strategy for the Kyrgyz Republic which will guide the Bank's operations in the country for the next four years. The key strategic priorities include (i) fostering sustainable growth by strengthening regional cross-border linkages; (ii) enabling SMEs to scale-up and bolster competitiveness; and (iii) promoting sustainability of public utilities through commercialization and private sector participation. In addition, the Bank will seek to support through the above priorities the reduction of regional economic disparities, by increasing its outreach to less developed rural areas, in particular in the southern regions, and addressing inclusion gaps in relation to gender and youth across sectors.

Fostering Sustainable Growth by Strengthening Regional Cross-border Linkages

As a landlocked economy with a limited domestic market, the Kyrgyz Republic would benefit greatly from deeper regional integration, given its important energy export potential, as well as good regional trade and transit position. The country is engaged in several regional integration processes, which create opportunities in terms of export markets and potential inward investments.

- The Bank helped local SMEs to develop export potential by providing direct business advice involving both local and international consultants, organizing specialized seminars, trainings to promote trade finance instruments and equip consultants with much needed knowledge on export promotion.

- The Bank continued its engagement with the government on public procurement improvement under the joint EBRD–UNCITRAL technical cooperation project designed to upgrade public procurement regulation in the CIS to the new UNCITRAL Model Law on Procurement of Goods, Construction, and Services. The Bank continues working with the government on helping to open negotiations and join the GPA to comply with requirements of both WTO and Eurasian Economic Union in terms of public procurement.

- To support the Kyrgyz exporters by facilitating access to finance and improving standards, Bank provided financing to one exporter for a total of EUR 0.5 million through ETC Risk Sharing facility; and signed 3 new TFP lines, and PFIs financed 9 transactions for a total of EUR 2 million.

- To Promote FDIs bringing skills, technology, and increased competition and standards into the country, Bank mobilized in 2016 around EUR 237 m in FDI and supported development and ongoing operations of Kumtor mine (incl. energy efficiency improvements and setting standards for corporate governance) and improved regulatory practices in the country. Loan fully disbursed, setting the stage for a good TI delivery in coming years.

Enabling SMEs to Scale-up and Bolster Competitiveness

The Bank's operations in support of local SMEs took advantage of the ETC Initiative and recently created SME Department, which was instrumental in enabling the Bank to deliver a number of small projects with significant transition impact, particularly in the areas of corporate governance and business conduct. In 2016 the Bank signed eight corporate sector projects all with local SMEs.

- **SME**. Under the Risk-Sharing Facility (RSF), jointly with local partner banks the Bank supported expansion to Jalalabad of one of the leading flour producing companies; financed one of the largest manufacturing enterprises in the country supplying radiators and other spare parts to its partners in Russia and Kazakhstan helping to improve health and safety standards at the site as well as modernize production facilities; supported a local hotel modernization with energy efficiency investment; helped local resort modernize its wastewater treatment facility with the aim to reduce energy consumption and improve the resort's area and facilities; provided financing to a local fuel trader to expand the network of fuel stations across the country; and supported a local producer of confectionery products in the southern area to refurbish its manufacturing workshop.

- **Financial Sector**. Improving access to finance by developing local financial sector remained a priority for the Bank in supporting SMEs. In 2016, the Bank signed eight new loan agreements with local banks and MFIs. Out of which five on-lending MSME loans in local currency with local banks and non-bank MFIs, including with the largest local bank, Optima bank; as part of the Bank's Local Currency and Local Capital Market Initiative. In 2016, Bank provided KR's first local currency conversion for a corporate loan, which will enable the client to repay the remainder of the loan in local currency, increasing its resilience and competitiveness - issued $3m in synthetic Kyrgyz som floating rate notes, contributing to the development of KR's local capital market as well as encouraging use of LCY among investors.

- **KyrSEFF**. Loans to local financial institutions also included three credit lines to three participating financial institutions (KICB, Bai Tushum and First Micro CerditCompany) provided under the $35 million Kyrgyz Sustainable Energy Efficiency Facility II (KyrSEFF) which includes not only energy efficiency but also water efficiency component; KYRSEFF II is an example of an **integrated** approach combining policy dialogue, financing and TC-supported capacity building at local intermediaries, benefiting from donor-funded investment incentives. KyrSEFF provides financing for small-size energy efficiency improvements in the residential, service, agribusiness, SME, and industry sectors. USD 6.5 million were signed and committed in 2016 and 2017 (as of November) to six financial institutions in the country.

- **Advice for Small Businesses.** EBRD connects small and medium-sized enterprises to the expertise that can help transform their businesses. Depending on the nature of the company's needs, EBRD works by providing business advice, supporting short-term specific projects with local consultants, or through industry expertise, using longer-term projects that help senior managers develop new business skills and make the structural changes their companies need to thrive.

- EBRD works with international advisers with more than 15 years' experience in a particular industry or field. In visits over the course of 12–18 months, the advisers strive to transfer their know-how to receptive managers. The teaching of international best practices is tailored to the needs of the client, and can cover anything from restructuring, to marketing and design or financial management. EBRD has undertaken 59 projects in the Kyrgyz Republic with companies in manufacturing, ICT, tourism, and agriculture. The majority of projects focused on improving marketing and sales, organization, operations, and financial management. The total donor commitment for these projects was approximately €3.5 million.

- EBRD helps companies work with qualified local consultants on a range of projects, covering concerns from market research to strategic planning, quality management and certification or energy efficiency and environmental management. These projects are undertaken on a cost-sharing basis. EBRD also works with the local consultancy sector, supporting professional capacity building to develop the skills of local consultants to enable them to serve the SME sector on a sustainable basis, and to introduce more sophisticated advisory services in areas such as quality management and energy efficiency. As of November 2017, EBRD in Kyrgyz Republic has undertaken 1074 projects with 272 local consultants. More than 66 percent of the enterprises assisted are located outside of the capital city Bishkek. Following one year after consulting projects' completion, turnover increased by nearly 65 percent of EBRD beneficiary companies, while 57 beneficiaries secured external investments, for a total investment of €31 million. EBRD has committed and disbursed over €3.48 million as grants.

Promoting Sustainability of Public Utilities through Commercialization and Private Sector Participation

- **Energy.** In October 2016, EBRD signed EUR 4 million loan to JSC Oshelectro distribution company. The Bank proceeds to be used for rehabilitation and modernization of low and medium voltage distribution networks in two south regions of Kyrgyzstan. The project also incorporates installation of the advance metering system with meters capable of remote disconnection and meter reading. EBRD loan proceeds will be complemented by EUR 1 million grant financing from EU / Investment Fund for Central Asia (IFCA).

- **Municipality.** To build the institutional framework for sustainable operations of municipal services, the Bank strengthened its activities in municipal infrastructure projects and worked on implementation of a €20 million framework to improve water supply and wastewater treatment supported by co-financing grants from bilateral and multilateral donors. The framework was fully utilized by the end of 2014. In 2015 the Bank extended the original framework by approving new €20 million to cover additional sub-projects in the following cities: Naryn, Batken, Cholpon-Ata, Balykchy, Karakol, Kara-Suu, Uzgen, Kizil-Kiya, Toktogul, Mailu-Suu and second phases of water projects in Osh, Jalal-Abad and Talas.

- Under this framework, the Bank signed new water and wastewater projects for Mailuu-Suu, Toktogul, Balykchy and Uzgen cities in 2017. The new loans in total amount to USD 6.8 million (USD2.75 for Uzgen, USD1.21 million for Toktogul, USD1.6 million for Mailuu-Suu and USD 1.21 million for Balykchy) and are co-financed by capital grants in total amount of €15.6 million (€5 million for Uzgen, €3.2 million for Toktogul and €4.2 million for Mailuu-Suu and €3.2 million for Balykchy) from the European Union's Investment Facility for Central Asia (EU IFCA) and loan from European Investment Bank in total amount of €6.15 million (€2.5 million for Uzgen, € 1.1 million for Toktogul, €1.45 million for Mailuu-Suu and €1.1 million for Balykchy). The proceeds of loans and the grants would be used to finance supplementary renovation of the Company's water supply infrastructure, as well as wastewater management improvements. The capital expenditure grants are required to meet conditions for non-concessional lending and mitigate affordability constraints. Projects in the water sector enabled the Bank to make progress with water tariff reforms, implementing IFRS accounting standards, and promoting efficiency in the water companies.

- In 2015 the EBRD declared effective the €11 million loan to finance critical solid waste investments in Bishkek, which is the first project to support solid waste management in the country. The loan is co-financed by €3 million capital grant from the Bank's Shareholder Special Fund (SSF) and €8 million from the EU IFCA. The project is expected to improve the city's solid waste management, including collection across the city, investment in an urgently needed sanitary landfill, and the closure of the existing old dumpsite. The project will help optimize solid waste collection including acquisition of new trucks and containers and is expected to result in an improved level of public service, the introduction of waste recycling and environmental improvements. In addition, substantial TC has been mobilized to assist the Bishkek municipality with the development and implementation of resettlement and livelihood restoration in connection with the existing landfill.

- The Bank continued implementation of the Bishkek Public Transport project with 79 new high- and low-floor trolleybuses delivered to Bishkek in 2014. For all municipal projects gender was taken into consideration with respect to improving equality of access to the new services. In September, 2017 the Bank provided additional loan of €5 million in total to finance the second phase of the Bishkek Public Transport project for procurement of additional up to 50 new trolleybuses. The Bank loan is co-financed by €3.4 million capital grant from EBRD SSF.

- At the beginning of 2016 EBRD declared effective the Osh Public Transport, the first transport project in South, which is supporting development of public transport in Osh City. The EBRD has provided total financing of over €10 million to the project which is intended to double the number of passengers for the municipal Osh Auto Transport Company. The total package consisted of a €5.7 million sovereign loan and a €3.1 million investment grant from the EBRD Shareholder Special Fund, while €1.2 million is being spent on technical cooperation program which is also financed by EBRD grants. The program includes the introduction of a new automated fare-collection system, as well as corporate development plan for the company and gender inclusion plan. 30 brand new buses arrived in Osh at the end of December, 2016 and all 23 trolleybuses have arrived at the beginning of April, 2017.

Policy Dialogue

EBRD is continuing to support the Business Development and Investment Council, which has been providing local and international business representatives (representing the mining, industry, agro-processing and tourism sectors) with a platform to discuss the main barriers to doing business with top officials of the government.

- The Bank continued to actively engage in policy dialogue with the government and local authorities to promote the further reform agenda in corporate and infrastructure sectors, in particular transport sector (road maintenance and financing) reform.

- The Bank is providing support to the development of local capital markets through policy dialogue, TC deepening the market, and reducing financial institutions' funding mismatches, including in local currency.

- The Bank has been working on implementing TC to provide institutional capacity building support to the State Agency for Geology to support mining sector reform.

- The Bank continues its support for renewable energy development including through TC to the Ministry of Energy and Industry to support the renewable energy framework, and a possible financing of a pilot mini-hydro project(s).

- The Bank continued policy dialogue with the authorities and utility companies to improve employment opportunities and HR practices affecting women, youth and regional populations in utility and public transport. An initial study of impediments for creating equal opportunities for women's employment in the mining sector has been produced which suggested a need for changes to be further discussed with the authorities.

Climate Resilience. Since October 2015, on behalf of the Kyrgyz Government and with support from the IFI and donor community, the EBRD is playing a leading role in implementing the Climate Investment Funds' Pilot Program for Climate Resilience (PPCR) in the Kyrgyz Republic. PPCR provided USD 1.5 million technical assistance grant to help the Kyrgyz authorities mainstream climate change considerations into development planning through:

- Establishing a well-functioning climate finance coordination mechanism for managing flow of international climate and development finance for investment projects; and

- Designing a business plan (Strategic Programme for Climate Resilience) with viable and financeable investment projects in sectors particularly vulnerable to climate change, including energy, water resources, agriculture and transport, to attract funding from various sources, including the Green Climate Funds (GCF), the Climate Investment Funds (CIF), and MDBs as well as development partners for their implementation.

The Bank, with support of national and international climate finance experts, is implementing a TC assessing current capacities to manage climate finance and developing a framework for structuring viable investment projects that are in line with country's debt sustainability principles. Furthermore, in the context of this work, the Bank is assessing how the use of concessional climate co-finance could support the Kyrgyz Government in funding major infrastructure and development investment priorities, while meeting the IMF debt sustainability limits.

The Bank is also providing support in structuring an institutional capacity building program to strengthen country's preparedness for accessing and managing climate finance.

The Bank is continuing dialogue with the authorities and private sector entities to identify new business opportunities that could be supported by international climate finance funds, MDBs and development partners.

TECHNICAL ASSISTANCE PROVIDED BY THE FUND

(February 2003–October 2017)

Department	Subject/Identified Need	Timing	Counterpart
FAD	Improving the Effectiveness of the Large Taxpayer Unit	February 24–March 7, 2003	Ministry of Finance
	Treasury Management Information System	July 21–29, 2003	Ministry of Finance
	VAT on agriculture	November 3–11, 2003	Ministry of Finance
	Priorities for Tax Administration Reform	July 22–August 5, 2004	Ministry of Finance
	Supporting Tax Administration Reform and Installing New Expert Advisor	January 16–28, 2006	Prime Minister's Office
	Fiscal ROSC Reassessment (Fiscal Transparency Module)	September 11–25, 2007	Ministry of Finance
	Securing Tax Revenues During the Economic Downturn	March 9–20, 2009	Ministry of Finance
	Strengthening the Link between Fiscal Policy and Budget Preparation	October 12–23, 2009	Ministry of Finance
	Monitoring Expenditure Arrears; Adjusting the New BOCOA	October 20–23, 2009	Ministry of Finance
	IMF peripatetic assignment to support overall LTO (large taxpayer office) enhancement	February 22–March 12, 2010	State Tax Service
	Reviewing Treasury's Work and Advising the Authorities on COA Issues	February 15–18, 2011	Ministry of Finance
	Tax Policy Advice	April 20–May 4, 2011	Ministry of Finance, State Tax Service, and State Customs Service
	Reviewing Progress on COA Work	July 4–7, 2011	Ministry of Finance
	Public Financial Management	August 17–30, 2011	Ministry of Finance
	Tax Administration Diagnostic Mission (TPA TTF Module 6)	September 16–29, 2011	Ministry of Finance, State Tax Service, and State Customs Service
	Unified Chart of Accounts	November 3–11, 2011	Ministry of Finance

Department	Subject/Identified Need	Timing	Counterpart
	Public Finance Management	December 8–13, 2011	Ministry of Finance
	Tax Administration Reform	February 27–March 17, 2012	State Tax Service
	Tax Administration Enforcement (Module 6—TPA TTF)	September 14–24, 2012	Ministry of Finance, State Tax Service, and State Customs Service
	Public Finance Management	September 27–October 3, 2012	Ministry of Finance
	Public Finance Management	February 13–25, 2013	Ministry of Finance
	Tax Administration Enforcement (Module 6—TPA TTF)	April 11–24, 2013	Ministry of Finance, State Tax Service, and State Customs Service
	Pilot Mission on Fiscal Safeguards	April 22–24, 2012	Ministry of Finance
	Tax Administration in Transition	April 24–May 7, 2013	Ministry of Finance, State Tax Service, and State Customs Service
	Tax Administration Enforcement (Module 6—TPA TTF)	April 11–24, 2013	Ministry of Finance, State Tax Service, State Customs Service
	Fiscal Safeguards Pilot	April 22–24, 2013	Ministry of Finance
	Public Finance Management	August 13–23, 2013	Ministry of Finance
	Tax Policy	October 24–November 8, 2013	Ministry of Finance
	Tax Administration Enforcement (Module 6—TPA TTF)	November 19–23, 2013	Ministry of Finance, State Tax Service, State Customs Service
	Tax Administration Enforcement (Module 6—TPA TTF)	January 8–22, 2014	Ministry of Finance, State Tax Service, State Customs Service
	Public Finance Management	May 2–13, 2014	Ministry of Finance
	Public Finance Management	December 5–18, 2014	Ministry of Finance
	Public Finance Management	April 23–May 7, 2015	Ministry of Finance
	Tax Policy (Impact of the Accession to the EEU)	April 29–May 13, 2015	Ministry of Economy
	Public Finance Management (Fiscal risk disclosure)	September 17–October 1, 2015	Ministry of Finance
	Public Investment Management Assessment Information-Gathering	December 14–16, 2015	Ministry of Finance, Ministry of Economy

Department	Subject/Identified Need	Timing	Counterpart
	Public Investment Management Assessment	January 27–February 10, 2016	Ministry of Finance, Ministry of Economy
	Managing Government Wage Expenditure	March 15–28, 2016	Ministry of Finance, Ministry of Labor
	Treasury and Accounting Reform and Fiscal Risks Disclosure	September 19–30, 2016	Ministry of Finance
	Government Subsidies Review: Energy Subsidy and Social Protection	February 22–March 7, 2017	Ministry of Finance
	Treasury and Accounting Reform and Fiscal Risks Disclosure	April 17–27, 2017	Ministry of Finance
	A Rules-Based Fiscal Framework	June 13–26, 2017	Ministry of Finance
	Financial Management Information System (FMIS) Strategy	July 14–25, 2017	Ministry of Finance
MFD **MCM**	Review of the Capital Adequacy and Dividend Arrangements for the National Bank of the Kyrgyz Republic	August 18–28, 2003	National Bank of the Kyrgyz Republic
	Review of Debt Restructuring Operation and 2003 Financial Reporting	October 28–November 10, 2003	National Bank of the Kyrgyz Republic
	Monetary Operations, Banking System Development, and Central Bank Autonomy	September 13–23, 2004	National Bank of the Kyrgyz Republic
	Review of NBKR Debt Restructuring Arrangements, Options for Deepening Financial Markets and Amendments to the NBKR Law	December 7–18, 2004	National Bank of the Kyrgyz Republic
	Payments System	January 25–February 7, 2005 April 12–25, 2005 October 18–27, 2005 February 20–March 5, 2006 October 16–27, 2006, March 3–17, 2007 December 9–15, 2007 May 19–June 3, 2008 February 23–March 11, 2009 September 22–October 9, 2009	National Bank of the Kyrgyz Republic
	Bank Supervision and Regulation	February 23–March 8, 2005 May 18–28, 2005 July 17–28, 2005 October 02–13, 2005 January 15–26, 2006 February 12–23, 2006 March 20–30, 2006	National Bank of the Kyrgyz Republic
	FSAP update	September 5–15, 2005 October 10–23, 2006	National Bank of the Kyrgyz Republic
	AML/CFT	April 19–25, 2006	National Bank of the Kyrgyz Republic

Department	Subject/Identified Need	Timing	Counterpart
	Monetary Framework, Operations, and Liquidity Management	June 25–July 15, 2007	National Bank of the Kyrgyz Republic
	Islamic Banking Framework	February 4–12, 2008	National Bank of the Kyrgyz Republic
	Assessment of the Government Primary and Secondary Market Arrangements in the Kyrgyz Republic	May 6–16, 2008	National Bank of the Kyrgyz Republic
	Public Debt Management	July 14–31, 2009	Ministry of Finance and others
	Risk Management within the Islamic Banking Framework	July 6–15, 2009	National Bank of the Kyrgyz Republic
	Financial Stability Analysis and Stress Testing	March 10–18, 2010	National Bank of the Kyrgyz Republic
	Improving the Bank Resolution Framework	March 31–April 9, 2010	National Bank of the Kyrgyz Republic
	Bank Resolution	May 31–June 3, 2010	National Bank of the Kyrgyz Republic
	Bank Resolution	July 26–August 1, 2010	National Bank of the Kyrgyz Republic
	Bank Resolution	August 10–19, 2010	National Bank of the Kyrgyz Republic
	Reserve Management	January 28–February 9, 2013	National Bank of the Kyrgyz Republic
	Operational Advice on Improving the Monetary Policy Framework	March 22–29, 2012	National Bank of the Kyrgyz Republic
	FSAP Scoping Mission	April 1–5, 2013	National Bank of the Kyrgyz Republic
	FSAP update	July 1–15, 2013	National Bank of the Kyrgyz Republic
	Operational Advice on Improving the Monetary Policy Framework	February 3–14, 2014	National Bank of the Kyrgyz Republic
	Operational Advice on Improving the Monetary Policy Framework	April 20–28, 2015	National Bank of the Kyrgyz Republic
	Strengthening Near-Term Modeling and Forecasting Capacities	April 18–29, 2016	National Bank of the Kyrgyz Republic
	Medium-Term Debt Management Strategy	April 20–28, 2016	Ministry of Finance
	Strengthening Banking Supervision	May 24–June 1, 2016	National Bank of the Kyrgyz Republic
	Monetary Policy and Inflation Targeting Framework	April 10–25, 2017	National Bank of the Kyrgyz Republic

Department	Subject/Identified Need	Timing	Counterpart
	IFRS 9 Training for NBKR Banking Supervisors	May 29–June 2, 2017	National Bank of the Kyrgyz Republic Banking Supervisors
	Risk Based Supervision Workshop	October 9–13, 2017	National Bank of the Kyrgyz Republic Banking Supervisors
	IFRS 9 Implementation	October 16–25, 2017	National Bank of the Kyrgyz Republic
LEG	Review of Bank Legislation	March 1–4, 2004 April 26–May 6, 2004	National Bank of the Kyrgyz Republic
	Review of Tax Legislation	July 27–August 5, 2004	Ministry of Finance
	Assisting in drafting Tax Code	December 4–10, 2005	Prime Minister's Office
	AML/CFT Follow-up	July 2–6, 2007	National Bank of the Kyrgyz Republic
	AML/CFT Follow-up	September 3–6, 2007	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	AML/CFT Framework	February 11–15, 2008 March 3–7, 2008	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	Review of the Draft Tax Code	April 22–30, 2008	Ministry of Finance
	AML/CFT capacity building	March 25–31, 2009	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	AML/CFT Follow-up	May 18–29, 2009	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	AML/CFT Follow-up	August 3–14, 2009	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	AML/CFT follow-up	September 22–25, 2009	State Financial Intelligence Service
	AML/CFT Follow-up	October 5–16, 2009	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	AML/CFT Follow-up	January 27–29, 2010	State Financial Intelligence Service

Department	Subject/Identified Need	Timing	Counterpart
	AML/CFT Follow-up	February 22–March 4, 2010	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	AML/CFT Follow-up	January 18–20, 2011	National Bank of the Kyrgyz Republic and State Financial Intelligence Service
	Legal Framework for Crisis Management and Bank Resolution	March 9–23, 2011	National Bank of the Kyrgyz Republic, Ministry of Finance, Deposit Protection Agency, Debt Enterprise Bank Resolution Agency, Ministry of Foreign Affairs, and Union of Banks
	Legal Frameworks for Bank Resolution	September 6–16, 2011	National Bank of the Kyrgyz Republic and Debt Enterprise Bank Resolution Agency
	AML/CFT Follow-up	October 17–21, 2011	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	Legal Frameworks for Bank Resolution and Central Banking	March 5–15, 2012	National Bank of the Kyrgyz Republic
	Legal Frameworks for Bank Resolution and Central Banking AML/CFT Follow-up	December 11–20, 2012 February 2013	National Bank of the Kyrgyz Republic National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	February 2014	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	January 2015	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor

Department	Subject/Identified Need	Timing	Counterpart
	AML/CFT Follow-up	June 2015	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	October–November 2015	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	January 2016	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	AML/CFT Follow-up	April 2016	National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Public Prosecutor
	Legal Frameworks for Bank Resolution	September 20–22, 2017	National Bank of the Kyrgyz Republic, Ministry of Justice
	AML/CFT	October 3–7, 2017	National Bank of the Kyrgyz Republic
STA	SDDS Subscription	January 28–February 5, 2004	National Statistical Committee
	Balance of Payments Statistics	March 15–29, 2004	National Bank of the Kyrgyz Republic
	Monetary and Financial Statistics	April 27–May 11, 2004	National Bank of the Kyrgyz Republic
	National Accounts Statistics	November 17–28, 2008	National Statistics Committee
	Government Finance Statistics	November 11–14, 2008	Ministry of Finance
	National Accounts Statistics	March 1–12, 2010	National Statistics Committee
	Government Finance Statistics	February 13–24, 2012	Ministry of Finance
	Private Sector External Debt Statistics	February 4–15, 2012	National Statistics Committee and National Bank of the Kyrgyz Republic
	Price Statistics	February 18–March 1, 2013	National Statistics Committee

Department	Subject/Identified Need	Timing	Counterpart
	Price Statistics	March 31–April 11, 2014	National Statistics Committee
	External Sector Statistics	February 16–27, 2015	National Bank of the Kyrgyz Republic
	Monetary and Financial Statistics	April 15–28, 2015	National Bank of the Kyrgyz Republic
	External Sector Statistics	October 26–November 6, 2015	National Bank of the Kyrgyz Republic
	External Sector Statistics	April 4–15, 2016	National Bank of the Kyrgyz Republic
	Quarterly National Accounts	April 11–16, 2016	National Statistics Committee
	Government Finance Statistics	April 11–22, 2016	Ministry of Finance
	Monetary and Financial Statistics	April 13–26, 2016	National Bank of the Kyrgyz Republic
	National Account EDDI2	April 17–28, 2017	National Statistical Committee
	Government Finance Statistics	April 24–May 5, 2017	Ministry of Finance
	National Account Statistics	November 6–24, 2017	National Statistical Committee

List of Resident Advisors

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

STATISTICAL ISSUES

Data provision is adequate for surveillance. The four institutions responsible for collecting, compiling and disseminating macroeconomic statistics—the National Statistics Committee (NSC), the Ministry

of Economy and Industry, the Ministry of Finance, and the NBKR—have legal and institutional environments that support statistical quality, and their respective staff are well-versed in current methodologies.

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

A data ROSC mission in November 2002 concluded that the quality of the macroeconomic statistics had improved significantly in the last few years. The authorities' response to the data ROSC (posted on the IMF website www.imf.org/external/np/rosc) includes an update on the status of implementation of the ROSC recommendations.

National Accounts

In general, dissemination of national accounts statistics is timely. Technical assistance has been received from the IMF, EUROSTAT, OECD, the World Bank, and bilateral donors. While significant progress has been made in improving the national accounts estimation process, problems persist regarding the quality of the source data, due mainly to excessively tight collection deadlines associated with the release schedule. Efforts are needed to improve the quality of the source data for quarterly GDP estimates. Moreover, while the quarterly GDP estimates are disseminated on a discrete basis for SDDS purposes, these estimates are still derived from cumulative data. Difficulties also remain in properly estimating the degree of underreporting, especially in the private sector. To improve the coverage and reliability of primary data, work has been undertaken to introduce sampling procedures. Improved sampling procedures have been adopted for household surveys and new report forms have been introduced for the enterprise survey. The NSC has established a division of sample surveys, which would assist in improving the sampling techniques.

The November 2008 STA mission on national accounts assisted the staff of the National Accounts Division in NSC to produce discrete quarterly GDP estimates at current and constant prices, using both the production and expenditure approaches. The mission made a number of recommendations, including: (a) need to introduce the new establishment surveys; (b) disseminate the industrial production index (IPI) as a chain-linked indices, in line with international standards; (c) investigate the inconsistency between the IPI and the producer price index (PPI); (d) fully computerize the calculation of volume estimates for agriculture in line with international practice; and (e) obtain time series data for loans and deposits of financial institutions. However, a follow-up April 2016 STA mission found deficiencies in the quarterly discrete data. A May 2017 mission reviewed thoroughly the quarter GDP compilation processes and gave hands-on advice to the NSC.

Quarter GDP estimates by production and expenditure in accordance with international standards are expected to be disseminated by March 2018.

Price and Labor Market Statistics

The concepts and definitions used in the CPI, which has been published since January 1995, are broadly consistent with international standards. The price index covers all households residing in the country.

The PPI, which has been published since October 1996, is compiled broadly in accordance with international standards, although its coverage needs to be improved. The coverage of the PPI was broadened in July 2007 and its weights were updated in 2014.

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

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

Government Finance Statistics (GFS)

The Social Fund is now part of the General Government sector. In 2016, for the first time, data on the general government sector for 2015 were compiled in a format based on *GFSM 2014*, including the balance sheet and functional classification of expense, and they were submitted to STA. During the

April 2017 mission, quarterly GFS data were updated and a report on gross central government debt for 2014-2016 was prepared, including credits and debt securities, with a breakdown by residency, counterpart sector, maturity, and currency. Data for whole general government sector were transmitted to STA for their publication in GFS Yearbook. Monthly GFS data are reported to STA for publication in the International Financial Statistics (IFS).

The provision of data on public external debt service has improved. Data on actual debt service, guaranteed debt service, outstanding debt, and revised debt projections are provided on a monthly basis. The quality—including timeliness—of external debt data is adequate. The External Debt Division of Ministry of Finance is now solely responsible for monitoring external debt, and has benefited from on-site training provided by a Swiss-financed long-term consultant and the computerization of its database.

Monetary and Financial Statistics (MFS)

The MFS Technical Assistance (TA) mission visited the Kyrgyz Republic in April 2015 and assisted the National Bank of Kyrgyz Republic (NBKR) in migrating to the IMF recommended Standardized Report Forms (SRFs). In addition, the April 2016 MFS TA mission extended the coverage of SRF 2SR by including other deposit taking institutions and developed procedures for compiling SRF 4SR for other financial corporations (OFC). SRF 1SR for the NBKR and SRF 2SR for other depository corporations, with full sector coverage on other depository corporations (ODCs), are reported on a regular basis to STA for publication in the IFS. The NBKR is currently working on regular data compilation for SRF 4SR for OFCs.

The NBKR submits all core and nine encouraged Financial Soundness Indicators (FSIs) for deposit taking institutions as well as some encouraged FSIs for other sectors on a regular basis to STA for publication on the IMF website.

External Sector Statistics (ESS)

Data on the balance of payments and international investment position (IIP) are compiled and disseminated on a quarterly basis. The Kyrgyz Republic was one of the three beneficiary countries that are covered by the 18-month project on improving ESS finance by the Switzerland Government (SECO). Three TA missions in ESS have been conducted during the project. Before the project, the coverage, compilation techniques, temporal consistency, and timeliness of balance of payments, IIP, and external debt needed improvement. A specific concern was the accuracy of private sector external debt statistics. With the missions' assistance, the BPM6 was implemented in all three datasets. Also, the reporting of external debt data for all institutional sectors to the World Bank Quarterly External Debt Statistics database was resumed. Specific focus was on further improving the foreign direct investment data, estimation of shuttle trade, and of remittances. Concerns remain regarding the adjustment of trade statistics to the requirements of Custom Union (CU) whose member the Kyrgyz Republic became in 2015. There is need to reconcile the customs declarations database for the trade with CU members and with the rest of the world, as well as to reconcile the trade statistics and the exports/imports in the national account.

Kyrgyz Republic: Table of Common Indicators Required for Surveillance

(as of November 15, 2017)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items: Data Quality Methodological Soundness[8]	Memo Items: Data Quality Accuracy and Reliability[9]
Exchange Rates	11/14/17	11/15/17	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	9/30/17	10/20/17	M	M	M		
Reserve/Base Money	11/14/17	11/15/17	D	D	M	LO, O, LO, LO	LO, O, O, LO, LO
Broad Money	9/30/17	10/18/17	M	M	M		
Central Bank Balance Sheet	11/14/17	11/15/17	D	D	M		
Consolidated Balance Sheet of the Banking System	9/30/17	10/18/17	M	M	M		
Interest Rates[2]	9/30/17	10/25/17	M	M	M		
Consumer Price Index	10/31/17	11/10/17	M	M	M	O, LO, O, O	LO, LO, O, O, O
Revenue, Expenditure, Balance, and Composition of Financing[3]—General Government[4]	6/30/17	9/13/17	M	M	A	O, LNO, LO, O	LO, O, O, LO, LO
Revenue, Expenditure, Balance, and Composition of Financing[3]—Central Government	6/30/17	9/13/17	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	6/30/17	9/13/17	Q	Q	Q		
External Current Account Balance	6/30/17	10/20/17	Q	Q	Q	LO, LO, LO, LO	O, LO, LO, LO, LO
Exports and Imports of Goods and Services	8/31/17	10/20/17	Q	Q	Q		
GDP/GNP	9/30/17	10/18/17	M	M	M	O, O, LO, O	LO, LO, LO, O, O
Gross External Debt	6/30/17	10/20/17	Q	Q	A		
International Investment Position[6]	6/30/17	10/20/17	Q	Q	Q		

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

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

[3] Foreign and domestic financing only.

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

[5] Including currency and maturity composition.

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

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

[8] Reflects the assessment provided in the data ROSC (published in November 2003, and based on the findings of the mission that took place during November 2002) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

[9] Same as footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

KYRGYZ REPUBLIC

December 4, 2017

FOURTH AND FIFTH REVIEWS UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS UPDATE

Approved By
Juha Kähkönen and Zeine Zeidane (IMF) and John Panzer (IDA)

Prepared by staffs of the International Monetary Fund and the International Development Association

Based on this lite update on the debt sustainability analysis (DSA), the outlook for external debt sustainability outlook has remained broadly unchanged since the Article IV Consultation in October 2017. Following a sharp decline in 2016, external public debt is expected to further decline to 54.5 percent of GDP in 2017 and toward 50 percent in the medium term. The DSA assesses the Kyrgyz Republic to remain at moderate risk of debt distress. However, the debt outlook remains vulnerable, in particular to a sizeable exchange rate depreciation, a deceleration in real GDP growth and a deterioration of the fiscal balance, which could tilt the assessment to high risk of debt distress. In order to avoid this adverse development, the authorities need to remain cautious when contracting and guaranteeing new debt and continue fiscal consolidation.[1]

[1] The updated CPIA score of the Kyrgyz Republic is 3.63, which is an average for the 2014-16 period, maintaining the classification as a medium policy performer.

UNDERLYING ASSUMPTIONS

1. **The current DSA takes into account the revised macroeconomic assumptions compared to the Article IV Consultation.** Based on recent economic developments, economic growth in 2017–18 is now expected to be weaker than at the time of the Article IV Consultation. Due to a pickup in exports and strong remittance inflows, the current account deficit is expected to narrow in the medium term following a temporary widening in 2018. The fiscal balance is projected to improve at a faster rate than anticipated at the time of the Article IV Consultation.

Kyrgyz Republic: Selected Indicators, 2016-2020
(In millions of U.S. dollars)

	2016	2017	2018	2019	2020
Real GDP growth					
Current DSA	3.8	3.2	3.3	4.9	4.6
Previous DSA (2017 Article IV)	3.8	3.7	3.8	4.9	4.5
Overall fiscal balance (percent of GDP) 1/					
Current DSA	-6.9	-5.9	-4.0	-5.3	-3.2
Previous DSA (2017 Article IV)	-6.9	-7.0	-5.2	-6.2	-3.9
Current account balance (percent of GDP)					
Current DSA	-12.1	-10.0	-13.1	-12.2	-11.6
Previous DSA (2017 Article IV)	-9.7	-9.1	-11.4	-11.5	-11.2
PIP Disbursements					
Current DSA	311	368	341	400	258
Previous DSA (2017 Article IV)	311	416	325	400	258

Sources: Kyrgyz authorities and IMF staff estimates.
1/ Including onlending.

EXTERNAL DSA[2]

2. **The debt outlook remains vulnerable to external and domestic shocks.** Driven by the som appreciation, the postponement of some public investment projects by the authorities, and the write-off of Russian debt,[3] external public and publicly guaranteed (PPG) debt is projected to decrease to 54.5 percent of GDP in 2017, down from 63.5 percent in 2015 and 56.6 percent in 2016. However, the postponement of these projects will lead to increasing public investment and thus external PPG-debt is expected to level off

[2] Given the importance of remittances for the Kyrgyz economy (around 27-30 percent of GDP between 2014-16), staff applied the remittance-modified debt indicators in the debt sustainability analysis. The use of this approach is also supported by the following conditions: (i) remittances have been a reliable source of financing over the past few years and are expected to increase further in the medium term, partly driven by the easier movement of labor in the Eurasian Economic Union; (ii) breaches of thresholds before taking account of remittances are not protracted; and (iii) the modified debt burden indicators are significantly lower than the thresholds.

[3] The initial agreement between Russia and the Kyrgyz Republic signed in 2014 consisted of a write-off of a $300 million debt in equal tranches over a 10-year period. $60 million were written off in 2015–16. However, the agreement was revised earlier this year to write off the outstanding $240 million in 2017.

at around 56 percent in 2019, before starting to gradually decline in outer years. Total external debt is expected to decline from 85.4 percent of GDP in 2016 to 79.9 percent in 2017 and around 78 percent in the medium term, well below 85 percent of GDP at the third review.[4]

3. **The Kyrgyz Republic remains at moderate risk of debt distress.** Public and publicly guaranteed (PPG) external debt in present value (PV) terms is estimated to remain below 36 percent of the sum of GDP and remittances and to continuously decline under the baseline scenario over the projection period. Other indicators of debt sustainability also remain below their indicative thresholds and suggest, in particular, limited liquidity risks.

4. **The external PPG debt outlook remains vulnerable to large external shocks, in particular to a decline in exports and non-debt flows as well as combined external shocks.** The ratio of the PV of debt to GDP plus remittances rises above the relevant indicative thresholds over the medium term under four of the six stress tests (one standard deviation shock to exports and net debt creating flows, a combined shock, and a 30 percent exchange rate shock (see Table 2)).[5] The most severe bound test for the debt-to-GDP+remittances ratio is that of a combination shock, which yields a breach of threshold that is large (averaging 25 percent above threshold) and protracted (13 years), and sufficient to assess the country's external risk of debt distress as moderate (Figure 1).

PUBLIC DSA

5. **The public debt outlook has remained broadly unchanged since the Article IV Consultation.** Public debt (external plus domestic) is expected to reach 57.1 percent of GDP in 2017, down from 58.1 percent in 2016, partly driven by the write-off of Russian debt. Total public debt is expected to be manageable in the medium and long term, but remains highly sensitive to shocks to real GDP growth and the exchange rate or to failure to reduce the primary deficit over the medium term. Under the historical and fixed primary balance scenarios, public debt is projected to be on upward path in the long term, suggesting the importance of fiscal consolidation and

Kyrgyz Republic: Comparison of Debt Ratio
(In percent of GDP)

	2016	2017	2018	2019	2020	Long Term (2025)
PPGE debt to GDP ratio						
Current DSA	56.6	54.5	55.8	56.1	54.1	46.8
Previous DSA (2017 Article IV)	56.6	55.2	56.1	56.3	54.4	47.7
Public debt to GDP ratio						
Current DSA	58.1	57.1	58.2	58.4	56.2	50.0
Previous DSA (2017 Article IV)	58.1	57.2	58.6	59.4	58.3	52.9

Sources: Kyrgyz authorities and IMF staff estimates.

[4] This implies that private external debt (for example, debt of commercial banks) would be in the range of 25-29 percent of GDP in the medium term.

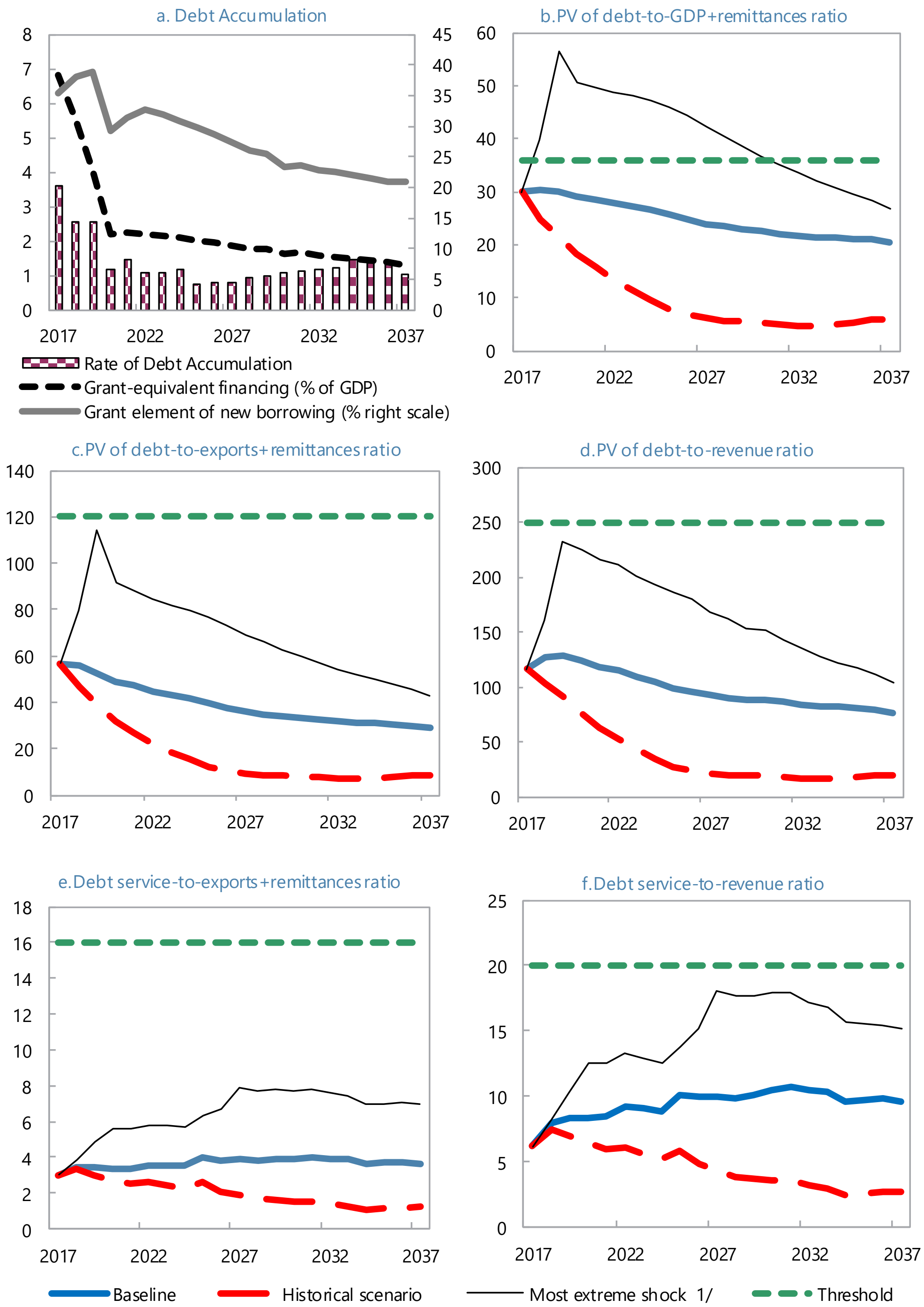
[5] Under these scenarios, exports growth and non-debt creating flows are at historical average minus one standard deviation.

growth-friendly reforms to preserve fiscal sustainability. Liquidity risks associated with public debt are expected to increase in the years ahead, with debt service increasing from around 5 percent toward 15 percent of revenues. This is due to the rising share of domestic debt in total public debt, which is serviced at higher domestic interest rates. Rising liquidity risks underline the importance of continued fiscal consolidation.

CONCLUSION

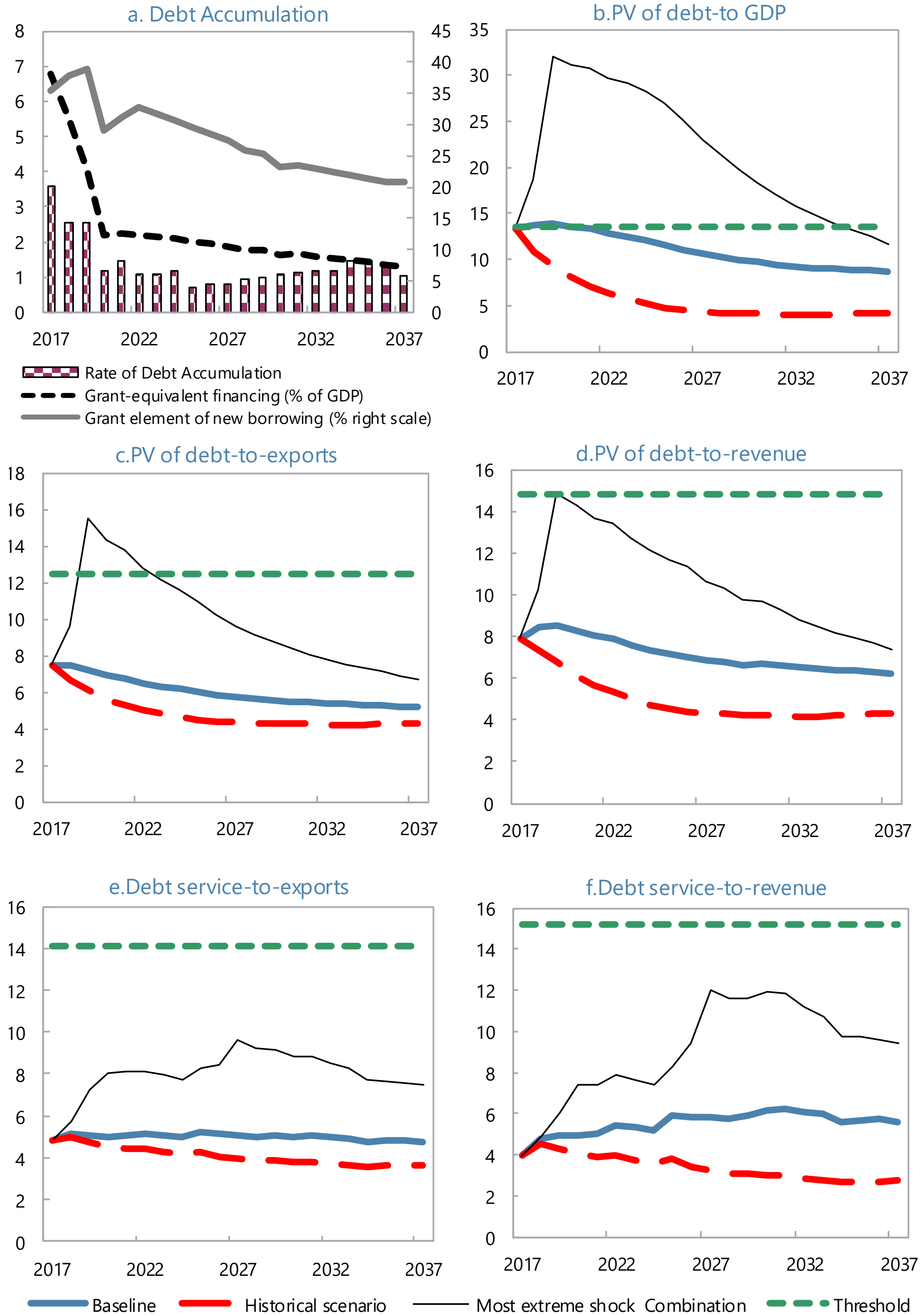
6. The authorities need to remain cautious when contracting and guaranteeing new debt, and should resume fiscal consolidation. In 2018-19, the primary fiscal deficit is expected to exceed the debt-stabilizing level, resulting in an increase in the public debt-to-GDP ratio. While necessary to fill the large infrastructure gap, externally financed public investments, could undermine debt sustainability. In this context, further efforts are needed to strengthen public debt and public investment management, in order to ensure that potential gains from externally financed public investment projects are fully realized.

Figure 1. Kyrgyz Republic: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2017-37[1]



Sources: Kyrgyz authorities and IMF staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a Combination shock.

Figure 2. Kyrgyz Republic: Probability of Debt Distress of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2017-37[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a Combination shock.

Figure 3. Kyrgyz Republic: Indicators of Public Debt Under Alternative Scenarios, 2017-37[1/]

Sources: Kyrgyz authorities; and staff estimates and projections.
1/ The most extreme stress test is the bound test (see Table 4) that yields the highest ratio on or before 2027.
2/ Revenues are defined inclusive of grants.

Table 1. Kyrgyz Republic: External Debt Sustainability Framework, Baseline Scenario, 2014-37

(In percent of GDP; unless otherwise indicated)

	Actual			Historical [6/]	Standard [6/]	Projections									
				Average	Deviation							2017-2022			2023-2037
	2014	2015	2016			2017	2018	2019	2020	2021	2022	Average	2027	2037	Average
External debt (nominal) 1/	**80.1**	**94.8**	**85.4**			**79.9**	**79.9**	**80.1**	**80.0**	**80.2**	**78.7**		**69.0**	**53.5**	
of which: public and publicly guaranteed (PPG)	50.5	63.5	56.6			54.5	55.8	56.1	54.1	53.1	51.5		43.2	36.1	
Change in external debt	7.4	14.8	-9.4			-5.5	0.0	0.2	-0.1	0.1	-1.4		-2.3	-1.7	
Identified net debt-creating flows	11.6	10.4	5.2			2.2	4.2	1.1	0.7	0.7	-0.5		-0.9	-0.9	
Non-interest current account deficit	**14.9**	**15.0**	**11.0**	**6.9**	**7.4**	**8.6**	**11.6**	**10.6**	**9.8**	**9.5**	**8.8**		**4.8**	**4.1**	5.1
Deficit in balance of goods and services	42.0	36.4	35.7			37.6	42.6	42.4	42.1	42.8	41.5		36.2	28.2	
Exports	45.3	37.0	37.4			38.1	39.3	42.5	44.6	45.8	48.3		55.8	62.5	
Imports	87.3	73.4	73.1			75.7	81.9	84.9	86.7	88.7	89.8		92.0	90.7	
Net current transfers (negative = inflow)	-30.2	-24.2	-29.1	-28.7	2.3	-32.4	-34.4	-35.1	-35.7	-36.8	-36.5		-33.5	-25.9	-31.0
of which: official	-2.8	-1.5	-1.3			-1.6	-1.5	-0.9	-0.1	0.0	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	3.1	2.9	4.4			3.4	3.3	3.3	3.4	3.5	3.8		2.1	1.8	
Net FDI (negative = inflow)	**-3.1**	**-15.1**	**-8.8**	**-7.8**	**3.7**	**-5.3**	**-6.3**	**-7.4**	**-7.4**	**-7.4**	**-7.4**		**-5.5**	**-5.1**	-5.6
Endogenous debt dynamics 2/	**-0.2**	**10.5**	**3.0**			**-1.1**	**-1.0**	**-2.1**	**-1.8**	**-1.4**	**-1.9**		**-0.2**	**0.2**	
Contribution from nominal interest rate	1.1	1.1	1.1			1.5	1.6	1.6	1.7	1.6	1.8		2.9	2.5	
Contribution from real GDP growth	-2.9	-3.1	-3.7			-2.5	-2.6	-3.7	-3.5	-3.1	-3.7		-3.1	-2.3	
Contribution from price and exchange rate changes	1.6	12.6	5.5			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-4.2**	**4.3**	**-14.6**			**-7.7**	**-4.2**	**-0.9**	**-0.8**	**-0.5**	**-0.9**		**-1.4**	**-0.9**	
of which: exceptional financing	0.0	0.0	-0.5			-3.8	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	66.3			64.6	64.3	64.3	65.3	66.1	65.2		57.8	43.3	
In percent of exports	...	...	177.2			169.3	163.6	151.5	146.4	144.1	135.0		103.5	69.2	
PV of PPG external debt	**...**	**...**	**37.4**			**39.1**	**40.1**	**40.4**	**39.4**	**39.0**	**38.0**		**32.0**	**25.8**	
In percent of exports	**...**	**...**	**100.0**			**102.6**	**102.2**	**95.0**	**88.4**	**85.1**	**78.5**		**57.2**	**41.3**	
In percent of government revenues	**...**	**...**	**115.1**			**116.2**	**127.7**	**128.9**	**123.9**	**118.8**	**115.9**		**92.4**	**77.7**	
Debt service-to-exports ratio (in percent)	**15.1**	**28.4**	**27.9**			**21.2**	**20.0**	**16.9**	**16.7**	**18.4**	**20.1**		**22.9**	**17.5**	
PPG debt service-to-exports ratio (in percent)	**3.5**	**5.3**	**7.1**			**5.4**	**6.4**	**6.2**	**6.0**	**6.1**	**6.3**		**6.2**	**5.4**	
PPG debt service-to-revenue ratio (in percent)	**4.7**	**5.8**	**8.2**			**6.2**	**8.0**	**8.4**	**8.4**	**8.5**	**9.2**		**10.0**	**10.1**	
Total gross financing need (Billions of U.S. dollars)	1.4	0.7	0.8			0.8	1.0	0.8	0.8	0.9	1.0		1.5	2.2	
Non-interest current account deficit that stabilizes debt ratio	7.5	0.3	20.5			14.1	11.5	10.4	9.9	9.3	10.2		7.1	5.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.0	3.5	3.8	4.7	3.6	3.2	3.3	4.9	4.6	4.0	4.8	4.1	4.6	4.4	4.3
GDP deflator in US dollar terms (change in percent)	-2.1	-13.6	-5.5	4.8	14.4	4.9	-0.2	0.8	0.8	0.7	0.8	1.3	2.0	2.0	1.9
Effective interest rate (percent) 5/	1.5	1.2	1.2	1.1	0.2	1.8	2.1	2.2	2.3	2.1	2.3	2.1	4.3	4.8	4.5
Growth of exports of G&S (US dollar terms, in percent)	-13.1	-26.9	-0.9	7.3	22.7	10.4	6.2	14.4	10.8	7.6	11.4	10.1	8.8	7.9	8.1
Growth of imports of G&S (US dollar terms, in percent)	-3.0	-24.8	-2.3	10.8	26.1	12.1	11.5	9.7	7.7	7.1	7.0	9.2	6.5	6.9	6.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	35.5	38.0	38.9	29.2	31.3	32.8	34.3	27.4	20.9	25.1
Government revenues (excluding grants, in percent of GDP)	32.9	33.5	32.5			33.7	31.4	31.3	31.8	32.8	32.7		34.6	33.2	33.6
Aid flows (in Billions of US dollars) 7/	0.3	0.2	0.2			0.4	0.4	0.3	0.1	0.2	0.2		0.2	0.3	
of which: Grants	0.2	0.1	0.1			0.3	0.3	0.2	0.1	0.1	0.1		0.1	0.1	
of which: Concessional loans	0.1	0.1	0.1			0.1	0.1	0.1	0.0	0.1	0.1		0.1	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			6.8	5.5	4.0	2.2	2.2	2.2		1.8	1.3	1.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			65.5	63.7	56.1	53.5	49.3	50.0		40.9	29.3	36.8
Memorandum items:															
Nominal GDP (Billions of US dollars)	7.5	6.7	6.6			7.1	7.3	7.7	8.2	8.5	9.0		12.1	22.5	
Nominal dollar GDP growth	1.8	-10.6	-1.9			8.2	3.1	5.8	5.4	4.8	5.6	5.5	6.6	6.5	6.3
PV of PPG external debt (in Billions of US dollars)			2.5			2.7	2.9	3.1	3.2	3.3	3.4		3.8	5.8	
(PVt-PVt-1)/GDPt-1 (in percent)						3.6	2.6	2.5	1.2	1.4	1.1	2.1	0.8	1.0	1.1
Gross workers' remittances (Billions of US dollars)	2.0	1.5	1.8			2.2	2.4	2.6	2.9	3.2	3.3		4.1	5.8	
PV of PPG external debt (in percent of GDP + remittances)	...	...	29.3			29.9	30.2	30.1	29.1	28.5	27.8		23.9	20.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	57.4			56.8	55.7	52.7	49.1	47.2	44.8		35.8	29.2	
Debt service of PPG external debt (in percent of exports + remittance	...	...	4.1			3.0	3.5	3.4	3.3	3.4	3.6		3.9	3.8	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017-37[1/] (In percent)

				Projections				
	2017	2018	2019	2020	2021	2022	**2027**	2037
PV of debt-to-GDP+remittances ratio								
Baseline	30	30	30	29	29	28	**24**	21
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	30	25	22	18	16	13	**6**	6
A2. New public sector loans on less favorable terms in 2017-2037 2/	30	31	32	31	31	31	**31**	37
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	30	30	31	30	29	29	**25**	21
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	30	35	45	44	43	42	**37**	24
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	30	32	34	33	32	32	**27**	24
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	30	38	46	42	41	40	**35**	24
B5. Combination of B1-B4 using one-half standard deviation shocks	30	40	56	50	50	49	**42**	27
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	30	38	38	37	36	35	**30**	26
PV of debt-to-exports+remittances ratio								
Baseline	57	56	53	49	47	45	**36**	29
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	57	46	39	32	27	22	**9**	9
A2. New public sector loans on less favorable terms in 2017-2037 2/	57	57	55	53	52	50	**47**	53
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	57	55	52	48	46	44	**35**	29
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	57	72	103	96	92	89	**73**	49
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	57	55	52	48	46	44	**35**	29
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	57	74	85	71	68	65	**52**	34
B5. Combination of B1-B4 using one-half standard deviation shocks	57	80	114	91	88	84	**69**	43
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	57	55	52	48	46	44	**35**	29
PV of debt-to-revenue ratio								
Baseline	116	127	129	124	119	116	**92**	77
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	116	103	91	75	62	52	**21**	19
A2. New public sector loans on less favorable terms in 2017-2037 2/	116	130	135	132	130	130	**121**	139
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	116	128	135	129	124	121	**96**	80
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	116	146	193	187	179	176	**140**	91
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	116	138	156	150	143	140	**111**	93
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	116	152	184	178	171	167	**133**	89
B5. Combination of B1-B4 using one-half standard deviation shocks	116	161	232	224	215	211	**169**	104
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	116	179	181	174	167	163	**129**	108

Table 2. Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017-37[1/] (In percent) (Concluded)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
Debt service-to-exports+remittances ratio								
Baseline	3	3	3	3	3	4	**4**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	3	3	3	3	3	3	**2**	1
A2. New public sector loans on less favorable terms in 2017-2037 2/	3	3	3	3	4	4	**4**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	3	3	3	3	3	4	**4**	4
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	3	4	5	6	6	6	**8**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	3	3	3	3	3	4	**4**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	3	4	4	4	4	4	**6**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	3	4	5	5	5	5	**7**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	3	3	3	3	3	4	**4**	4
Debt service-to-revenue ratio								
Baseline	6	8	8	8	8	9	**10**	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	6	7	7	6	6	6	**4**	3
A2. New public sector loans on less favorable terms in 2017-2037 2/	6	8	8	9	9	10	**10**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	6	8	9	9	9	10	**11**	11
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	6	8	9	11	11	12	**15**	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	6	9	10	10	10	11	**12**	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	6	8	9	10	11	11	**14**	13
B5. Combination of B1-B4 using one-half standard deviation shocks	6	8	10	13	13	13	**18**	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	6	11	12	12	12	13	**14**	14
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	17	17	17	17	17	17	**17**	17

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Kyrgyz Republic: Public Sector Debt Sustainability Framework, Baseline Scenario, 2014–37

(in percent of GDP; unless otherwise specified)

	Actual					Estimate	Projections								
	2014	2015	2016	Average 5/	Standard Deviation 5/	2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
Public sector debt 1/	52.3	64.9	58.1			57.1	58.2	58.4	56.2	55.0	53.2		47.9	42.3	
of which: foreign-currency denominated	50.5	63.5	56.6			54.5	55.8	56.1	54.1	53.1	51.5		43.2	36.1	
	1.7	1.4	1.6			2.6	2.4	2.2	2.1	1.9	1.8		4.7	6.2	
Change in public sector debt	6.1	12.6	-6.8			-1.0	1.1	0.1	-2.2	-1.2	-1.8		-1.0	-1.2	
Identified debt-creating flows	6.1	13.2	-2.6			-0.5	1.7	2.1	0.2	0.0	-0.6		-0.6	-0.2	
Primary deficit	2.8	2.1	5.9	5.8	7.5	4.6	2.7	4.1	2.0	1.4	1.2	2.7	0.9	0.6	0.8
Revenue and grants	35.3	35.6	34.7			38.5	35.1	33.4	33.3	34.1	34.0		35.6	34.1	
of which: grants	2.4	2.2	2.2			4.8	3.6	2.0	1.4	1.2	1.1		0.8	0.5	
Primary (noninterest) expenditure	38.2	37.8	40.6			43.2	37.7	37.5	35.3	35.5	35.1		36.6	34.7	
Automatic debt dynamics	3.3	11.0	-8.0			-1.3	-0.9	-2.0	-1.8	-1.4	-1.8		-1.5	-0.8	
Contribution from interest rate/growth differential	-2.2	-1.7	-2.4			-1.6	-1.6	-2.5	-2.4	-2.0	-2.3		-1.5	-0.8	
of which: contribution from average real interest rate	-0.4	0.1	0.0			0.2	0.3	0.2	0.2	0.2	0.2		0.7	1.1	
of which: contribution from real GDP growth	-1.8	-1.8	-2.4			-1.8	-1.8	-2.7	-2.6	-2.2	-2.5		-2.1	-1.8	
Contribution from real exchange rate depreciation	5.4	12.7	-5.6			0.2	0.6	0.5	0.6	0.6	0.6		...	...	
Other identified debt-creating flows	0.0	0.0	-0.5			-3.8	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	-0.5			-3.8	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	0.0	-0.5	-4.1			-0.6	-0.6	-1.9	-2.4	-1.2	-1.3		-0.4	-1.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	39.0			41.7	42.6	42.6	41.5	40.9	39.7		36.6	32.1	
of which: foreign-currency denominated	...	...	37.4			39.1	40.1	40.4	39.4	39.0	38.0		32.0	25.8	
of which: external	...	...	37.4			39.1	40.1	40.4	39.4	39.0	38.0		32.0	25.8	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	6.0	5.1	9.7			8.5	6.9	8.2	6.2	5.4	5.3		7.2	4.9	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	112			108	121	127	125	120	117		103	94	
PV of public sector debt-to-revenue ratio (in percent)	...	...	120			124	135	136	130	124	121		105	95	
of which: external 3/	...	...	115			116	127	129	124	119	116		92	77	
Debt service-to-revenue and grants ratio (in percent) 4/	5.3	6.0	9.2			8.2	8.6	9.2	9.6	9.3	9.9		14.1	15.5	
Debt service-to-revenue ratio (in percent) 4/	5.7	6.4	9.8			9.3	9.6	9.8	10.0	9.7	10.3		14.5	15.7	
Primary deficit that stabilizes the debt-to-GDP ratio	-3.2	-10.5	12.6			5.7	1.5	3.9	4.2	2.5	3.0		2.0	1.8	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.0	3.5	3.8	4.7	3.6	3.2	3.3	4.9	4.6	4.0	4.8	4.1	4.6	4.4	4.3
Average nominal interest rate on forex debt (in percent)	1.3	1.3	1.3	1.1	0.2	1.4	1.6	1.6	1.6	1.7	1.8	1.6	2.1	2.5	2.4
Average real interest rate on domestic debt (in percent)	5.6	13.9	26.2	-3.0	26.5	29.7	16.9	15.5	15.7	15.7	15.6	18.2	14.4	13.1	14.4
Real exchange rate depreciation (in percent, + indicates depreciation)	13.1	26.1	-9.3	-0.6	15.3	0.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	8.4	3.8	2.5	31.7	65.4	3.4	3.7	3.8	3.8	3.8	3.8	3.7	4.0	4.0	4.0
Growth of real primary spending (deflated by GDP deflator, in percent)	6.8	2.4	11.5	2.1	4.0	9.8	-9.7	4.2	-1.5	4.6	3.8	1.9	4.4	5.4	4.2
Grant element of new external borrowing (in percent)	...	...	...	...	...	35.5	38.0	38.9	29.2	31.3	32.8	34.3	27.4	20.9	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Kyrgyz Republic: Sensitivity Analysis for Key Indicators of Public Debt, 2017–37

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	42	43	43	41	41	40	37	32
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	42	45	46	48	51	53	66	92
A2. Primary balance is unchanged from 2017	42	44	45	46	48	49	59	80
A3. Permanently lower GDP growth 1/	42	43	44	44	44	44	51	80
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	42	44	47	48	49	49	54	61
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	42	51	59	57	57	55	51	43
B3. Combination of B1-B2 using one half standard deviation shocks	42	48	54	53	53	52	52	50
B4. One-time 30 percent real depreciation in 2018	42	59	58	57	56	54	50	45
B5. 10 percent of GDP increase in other debt-creating flows in 2018	42	51	51	49	49	48	44	37
PV of Debt-to-Revenue Ratio 2/								
Baseline	108	121	127	125	120	117	103	94
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	108	127	138	144	149	157	185	270
A2. Primary balance is unchanged from 2017	108	126	134	137	140	145	166	235
A3. Permanently lower GDP growth 1/	108	123	131	131	130	130	144	235
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	108	126	142	143	143	145	151	180
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	108	146	176	173	167	163	143	125
B3. Combination of B1-B2 using one half standard deviation shocks	108	138	161	159	156	154	145	146
B4. One-time 30 percent real depreciation in 2018	108	170	175	171	164	160	139	131
B5. 10 percent of GDP increase in other debt-creating flows in 2018	108	145	152	149	143	140	123	109
Debt Service-to-Revenue Ratio 2/								
Baseline	8	9	9	10	9	10	14	16
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	8	8	9	10	10	11	17	26
A2. Primary balance is unchanged from 2017	8	9	9	10	10	11	16	24
A3. Permanently lower GDP growth 1/	8	9	9	10	10	11	16	24
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	8	9	10	10	10	11	17	22
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	8	9	10	12	11	12	17	19
B3. Combination of B1-B2 using one half standard deviation shocks	8	9	10	11	11	11	17	20
B4. One-time 30 percent real depreciation in 2018	8	10	13	13	13	14	20	23
B5. 10 percent of GDP increase in other debt-creating flows in 2018	8	9	10	11	10	11	16	17

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