



International  
Monetary Fund

■ Русский

## **IMF Executive Board Approves US\$92.4 Million Extended Credit Facility to Support the Kyrgyz Republic**

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The Executive Board of the International Monetary Fund (IMF) today approved a three-year arrangement under the Extended Credit Facility (ECF) for the Kyrgyz Republic in a sum equivalent to SDR 66.6 million (about US\$92.4 million). The Board's approval enables the immediate disbursement of SDR 9.514 million (about US\$13.2 million), while the remaining amount will be phased over the duration of the program, subject to semi-annual program reviews.

The new Fund-supported program will provide a macroeconomic framework that will support the authorities' efforts to reduce macroeconomic vulnerabilities stemming from a weak regional environment and dependency on gold and remittances.

At the conclusion of the Executive Board's discussion, Mr. Min Zhu, Deputy Managing Director and Acting Chair, stated:

"Despite Kyrgyz Republic's good performance under the 2011–14 Extended Credit Facility arrangement, important challenges remain. These include a weak regional economic environment that is weighing on growth; a high public debt resulting from an ambitious investment program; the transition to the Eurasian Economic Union; and heavy reliance on gold, remittances, and foreign aid. Moreover, further progress on the reform agenda is needed, particularly in the financial sector. The authorities' program, which will be supported by a new three-year Extended Credit Facility arrangement, aims to address these challenges by helping achieve fiscal and debt sustainability, ensure financial sector stability, and encourage structural reforms to boost the economy's growth potential.

"The fiscal strategy will play a critical role. It will consist of a pause in fiscal consolidation in 2015 to accommodate external shocks, followed by the resumption of the adjustment in 2016–17 to maintain public debt at a sustainable level. Strong tax measures to increase revenues as well as the streamlining of current expenditures will be essential to improve the operating balance. The elaboration of a new debt management strategy and the review of the public investment program are crucial to address the high public debt level.

"The central bank will focus on containing inflation by keeping the interest rate positive in real terms. It will also limit foreign exchange interventions to smoothing excessive volatility without resisting exchange rate trends.

"Structural reforms and improving the business environment will be essential to boost growth potential. Maintaining a sound banking sector is also critical. To that effect, the enactment of the banking code will be essential to ensure a robust bank resolution mechanism, by strengthening the independence of the central bank."

## **Annex**

### **Recent Developments**

The Kyrgyz Republic's performance under the 2011-14 ECF arrangement, which expired last July, was good. Nevertheless, the economy continues to face challenges associated with a weak regional economic environment, high public debt, and the transition to the Eurasian Economic Union. This, together with volatile growth and inflation, increases the economy's vulnerability to external shocks. Rapid credit growth, combined with high dollarization and a weakening *som*, place the banking sector at an elevated risk. Poverty and unemployment are still high. Weak institutions, political uncertainty, and a challenging business environment further hamper economic development. Dependence on gold, remittances, and foreign aid remains an obstacle for sustained and inclusive growth.

### **Program Summary**

Fiscal policy will balance adjustment with large public investments needs. The pause in fiscal consolidation in 2015 will provide fiscal stimulus to offset the negative impact of the weak regional economic environment, whereas the consolidation effort in 2016-17 will ensure that the public debt will remain at sustainable levels. Avoiding a rapid buildup of debt in the future will necessitate a sound medium-term debt management strategy, complemented by a review of the public investment program.

The central bank will continue to focus on maintaining price stability through its newly introduced monetary policy framework. It will also continue to limit its foreign exchange interventions to smoothing excessive volatility without resisting exchange rate trends. A strong communication strategy is essential to the success of monetary policy.

Enhancing the resilience of the banking sector will be critical, particularly given the challenging economic environment. This would require the adoption of the banking code, in particular to strengthen the independence of the NBKR, the finalization of DEBRA Audit and the implementation of the remaining

recommendations of 2013 Financial Sector Assessment Program. Strengthening banking supervision and implementing macro-prudential measures will help to contain vulnerabilities associated with rapid credit growth, high dollarization, and a weakening domestic currency.

Structural reforms will aim to promote broad-based and inclusive growth and reduce poverty by reforming tax administration, strengthening public financial management, improving the business environment for domestic and foreign investors, and combating corruption.

Kyrgyz Republic: Selected Economic Indicators, 2011–15

	2011				
	2012				
	2013				
	2014				
	2015				
	Act.	Act.	Act.	Est.	Proj.
Real GDP (growth in percent)	6.0				
	-0.9				
	10.5				
	3.6				
	1.7				
Nongold real GDP (growth in percent)	5.6				
	5.0				
	5.8				
	4.6				
	2.7				
Consumer prices (12-month percent change, eop)	5.7				
	7.5				
	4.0				
	10.5				
	10.1				
Consumer prices (12-month percent change, average)	16.6				
	2.8				
	6.6				
	7.5				
	10.7				
General government finances (in percent of GDP) 1/					
Revenues	32.8				
	34.9				
	34.4				
	36.0				
	35.0				
Of which: Tax revenue	18.5				

	20.6
	20.5
	20.8
	20.8
Expense	32.0
	33.0
	31.1
	30.3
	29.7
Gross operating balance	0.8
	1.9
	3.3
	5.7
	5.3
Net acquisition of nonfinancial assets	5.3
	7.6
	7.0
	5.5
	9.3
Overall balance(net lending/borrowing)	...
	...
	...
	0.2
	-4.1
Overall balance including onlending	-4.6
	-5.7
	-3.8
	-3.7
	-7.6
Banking sector	
Reserve money (percent change, eop)	
	12.8
	17.7
	13.4
	-11.9
	1.3
Broad money (percent change, eop)	14.9
	23.8
	22.8
	3.0
	9.5
Credit to private sector (percent change, eop)	20.8
	26.2
	36.1
	43.6
	21.3
Credit to private sector (in percent of GDP)	11.7
	13.5
	16.1
	20.7
	22.4

External sector	
Current account balance (in percent of GDP)	-9.6
	-15.6
	-15.0
	-13.7
	-17.0
Export growth (percent change)	23.8
	3.4
	16.0
	-16.3
	-3.6
Import growth (percent change)	25.5
	25.7
	9.2
	-5.9
	-4.2
Gross international reserves (in millions of U.S. dollars)	1,831
	2,061
	2,226
	1,856
	1,665
Gross reserves (months of next year imports, eop)	3.6
	3.7
	4.2
	3.7
	3.1
External public debt outstanding (in percent of GDP)	45.6
	46.3
	43.7
	51.0
	57.0

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Sources: Kyrgyz authorities, and IMF staff estimates and projections.

1/ General government comprises State Government, Social Fund and Development Fund finances. State government comprises central and local governments.

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