INTERNATIONAL MONETARY FUND ASSESSMENT LETTER

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Director
Middle East and
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July 19, 2013

Mr. Klaus Gerhaeusser
Director General
Central and West Asia Department
Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Dear Mr. Gerhaeusser:

Thank you for your letter dated July 15, 2013, requesting an IMF assessment letter on the Kyrgyz Republic's macroeconomic conditions and prospects, and of macroeconomic structures and policies. The IMF does not provide assessment letters in case a recent assessment is less than six months old and macroeconomic conditions have not changed materially. I would therefore like to refer you to the staff report for the 2013 Article IV consultation and fourth review under the Extended Credit Facility (ECF) that was published in June. (http://www.imf.org/external/pubs/cat/longres.aspx?sk=40705.0).

I would also like to refer you to the press release of the staff visit that took place earlier in July (http://www.imf.org/external/np/sec/pr/2013/pr13268.htm).

A mission to conduct the fifth review under the ECF is scheduled for September and a press release on its findings is expected to be published in early October.

Sincerely,

IMF Executive Board Completes Sixth Review Under the ECF Arrangement for the Kyrgyz Republic and Approves US$14.7 Million Disbursement

Press Release No.14/309
26 June 2014

The Executive Board of the International Monetary Fund (IMF) today completed the sixth and final review of the Kyrgyz Republic's economic performance under the program supported by a three-year, SDR 66.6 million (about US$106 million at the time of approval) arrangement under the Extended Credit Facility (ECF).[1] The completion of the review enables an immediate disbursement of an amount equivalent to SDR 9.516 million (about US$14.7 million). The decision was taken without a formal Board meeting.[2] The ECF arrangement was approved on June 20, 2011 (see Press Release 11/245).

The Kyrgyz Republic concluded the ECF arrangement successfully, without delays and with a robust performance. During the program, strong adherence to the authorities' Fund-supported program played a pivotal role in achieving economic recovery and macroeconomic stabilization following the 2010 domestic crisis. Over the past three years, average economic growth was strong and broad-based, supported by a generally stable political environment, a largely favorable external environment and solid credit growth. Inflation has dropped substantially, although underlying inflationary pressures remain. Fiscal adjustment has been commendable and system-wide banking sector indicators are improving. The overall structural reform agenda has also been advancing. In light of the uncertain regional economic outlook, downside risks remain.

Following strong growth in 2013 of 10.5 percent, economic activity moderated to 5.6 percent in March 2014 (year-on-year) and inflation picked up slightly due to the depreciation of the Kyrgyz som in response to pressures on the Russian ruble and the devaluation of the Kazakh tenge. At the end of 2013, a new monetary framework, with the interest rate as an operational target, was adopted, aiming to improve the transmission mechanism of monetary policy. The outlook for the remainder of 2014 and beyond remains broadly favorable. Downside risks primarily stem from the slowdown in Russia via remittances and external trade channels, regional uncertainties, and fragmented domestic politics.

Notwithstanding economic progress, challenges remain. To sustain strong growth over the medium term, it is essential to improve the business climate, further strengthen governance and key institutions, implementing expeditiously financial sector reforms and public financial management and tax reforms. Moreover, continued prudent fiscal policy will be essential. Increasing tax revenue to compensate for the loss of revenue from the Manas Transit Center and restructuring expenditures to create fiscal space for pro-poor spending would help put public finances on sound footing. Continued tight monetary policy will be necessary to contain inflationary pressures. While financial indicators remain healthy, the banking sector's legal framework would improve substantially following the adoption of the Banking Code. This would facilitate the development of the financial sector and thereby support strong private sector-led growth. Addressing these challenges would help strengthen the Kyrgyz Republic's resilience to external shocks, reduce aid dependency, preserve debt sustainability, and improve the prospects for stable and sustained economic growth and poverty reduction.

[1] The ECF is the IMF's main tool for medium-term financial support to low-income countries. Financing under the ECF currently carries a zero percent interest rate, with a grace period of 5½ years, and a maturity of 10 years (http://www.imf.org/external/np/exr/facts/ecf.htm).

[2] The Executive Board takes decisions without a meeting (based on lapse of time procedures) when it is agreed by the Board that a proposal can be considered without convening formal discussions.