

INTERNATIONAL MONETARY FUND ASSESSMENT LETTER



INTERNATIONAL MONETARY FUND
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MASOOD AHMED
Director
Middle East and
Central Asia Department

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,

A handwritten signature in black ink, appearing to be "Masood Ahmed", written over a horizontal line.

IMF Executive Board Completes the Fifth Review under the ECF Arrangement for the Kyrgyz Republic and Approves US\$14.6 Million Disbursement[Press Release No. 13/490](#)

December 4, 2013

The Executive Board of the International Monetary Fund (IMF) today completed the fifth review of Kyrgyz Republic's economic performance under the program supported by the Extended Credit Facility (ECF). The Executive Board's decision enables the immediate disbursement of an amount equivalent to SDR 9.514 million (about US\$14.6 million) to the Kyrgyz Republic, bringing total disbursements under the arrangement to SDR 57.08 million (about US\$87.6 million). The Executive Board also considered the Report on the 2013 Financial System Stability Assessment (FSSA).

The Kyrgyz Republic's Extended Credit Facility arrangement was approved by the IMF's Executive Board on June 20, 2011 (see Press Release No. 11/245) with total access equivalent to SDR 66 million (about US\$102.2 million).

Following the Executive Board's discussion, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, stated:

"The Kyrgyz economy is recovering strongly after a contraction related to disruptions in gold production in 2012. Fiscal policy has remained prudent despite declining gold prices. Imports for large infrastructure projects are putting pressure on the current account. The medium-term outlook is broadly favorable, but not without challenges, including from gold price volatility and the slowdown in the region.

"The loss of nontax revenues related to the closure of the Manas Transit Center in 2014 will create headwinds for the fiscal consolidation that is needed to reduce vulnerabilities, rebuild policy buffers, and ensure macroeconomic stability and debt sustainability. In the near term, the revenue loss will be offset by grants, revenues from the new oil refinery, and expenditure restraint. Over the medium term, tax system reforms are expected to offset the loss and build a more stable and predictable revenue base. In addition, public financial management reforms will strengthen fiscal governance and transparency, and help to control expenditures.

"Proper implementation of the new operational framework for monetary policy will be instrumental in improving monetary transmission. It will be important for the National Bank to maintain a tight monetary policy stance to mitigate potential inflationary pressures stemming from the strong recovery and rapid credit growth.

"Creating a well-functioning financial sector is key to supporting private sector-led growth. The new banking code, once enacted, will be instrumental to strengthen the bank intervention and resolution process and bolster confidence in the banking system. Developing a strategic plan to strengthen bank supervision and a crisis management framework are important elements to increase stability and resilience of the financial sector. To strengthen the Anti-Money Laundering/Combating the Financing of Terrorism framework, the authorities should adopt the remaining legislative changes.

"Diversification of the economy would help reduce the volatility in growth stemming from potential disruptions in gold production and reduce the persistently high current account deficit. Good governance and sound institutions remain critical to create a level playing field, improve investor confidence, and lay the foundation for strong private sector-led growth."