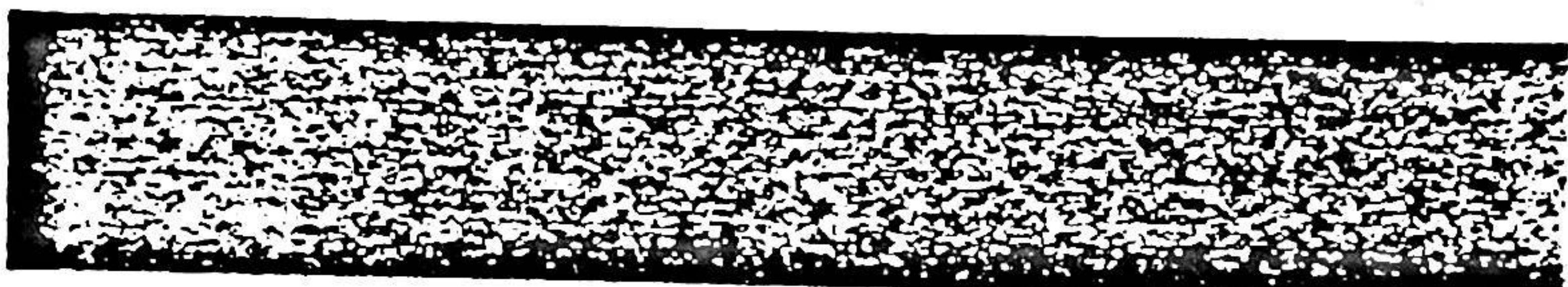


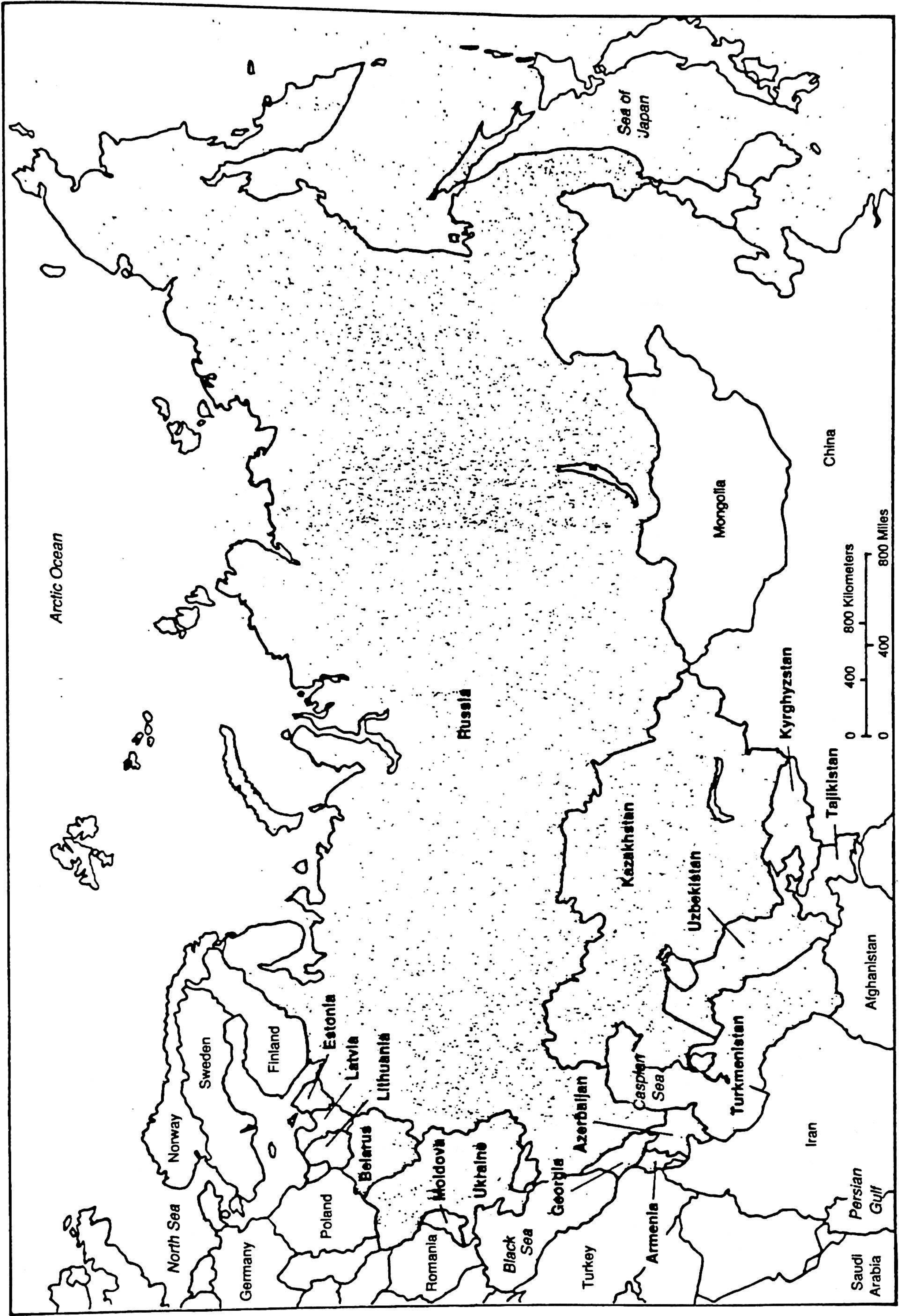
**Economic Review**

# **KYRGHYZSTAN**



International Monetary Fund  
Washington, D.C.

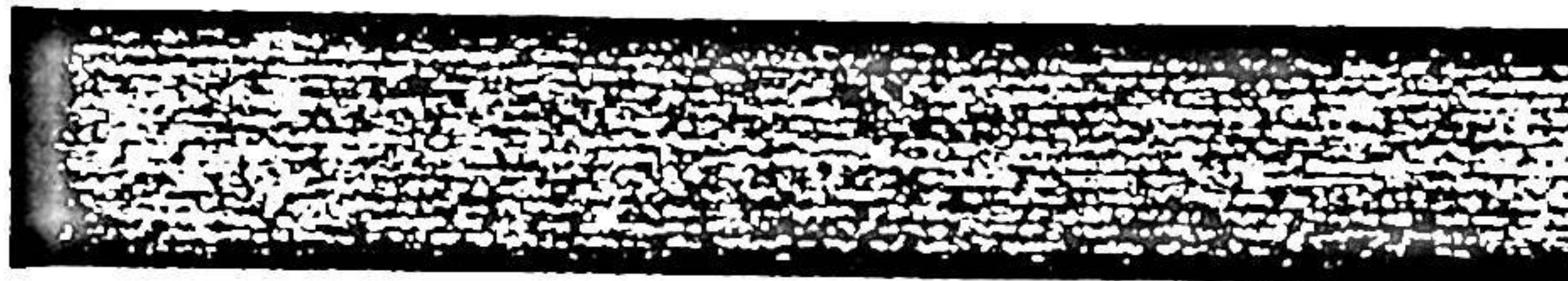






# Economic Review

## KYRGHYZSTAN



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# Preface

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Between September 1991 and March 1992 all the states of the former U.S.S.R. applied for membership in the International Monetary Fund. During this period, staff members of the IMF visited each of these countries to hold discussions with the various national authorities, review the domestic procedural and legal steps required for membership, collect economic data to process these applications, and provide policy advice. Following these visits, pre-membership reports were prepared on the countries' economies. Two companion reports were also prepared, the first reviewing the economy of the former U.S.S.R. in 1991 and the second providing an overview of common policy issues and major interrepublican economic relationships. The reports were prepared in the European II Department of the IMF, under the direction of John Odling-Smee. They also draw on the expertise of other IMF departments, as well as the staff of the World Bank.

Because of the importance of and widespread interest in the subject matter, these economic reviews are being published at this time, even though they are of an interim nature and it is still too early to present a comprehensive assessment of most of the economies. The reports are based on information available in early 1992. Although the studies were prepared for the Executive Board of the IMF, the descriptions of developments and policies they contain are those of the IMF staff and should not be attributed to Executive Directors or to the authorities of any of the individual countries.



# I. Background

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The first contact between the IMF and Kyrgyzstan took place in December 1991 as part of an IMF staff visit to all the eastern republics of the former Soviet Union. Kyrgyzstan formally applied for membership in the IMF and the World Bank Group on January 21, 1992, and an IMF staff team visited Bishkek during February 5–14, 1992 to review recent economic and financial developments, discuss the Government's macroeconomic policies for 1992, and undertake the preparatory work for membership in the IMF. Kyrgyzstan became a member of the IMF on May 8, 1992, with an initial quota of SDR 43 million (about US\$59 million).

## Geography and Population

Kyrgyzstan is a landlocked, largely mountainous country located in the center of Asia. The country is bounded by the People's Republic of China on the east, Kazakhstan on the north, Uzbekistan on the west, and Tajikistan on the west and south. It covers an area of 198,500 square kilometers—slightly larger than Austria and Hungary combined—and comprises a little less than 1 percent of the former U.S.S.R.'s area. About 90 percent of its territory lies at least 1,000 meters above sea level, and it has many small rivers and rapids that drain from the mountains into basins. Only about 7 percent of the territory is arable, 72 percent of which is irrigated.

Kyrgyzstan's population of 4½ million is somewhat larger than Norway's, and represents about 1½ percent of the population of the former U.S.S.R. The population is largely rural and, in common with other former Soviet republics in Central Asia, has a high birth rate. About one half of the population is Kyrgyz, a major nomadic group of Central Asia with a history dating back to 200 B.C.; in fact, the population was almost entirely nomadic until Kyrgyzstan became a part of the former U.S.S.R. and the collectivization program was introduced. Another one fifth of the population is Russian; the second largest minority is Uzbek (about 13 percent), followed by ethnic Germans and Ukrainians (about 2–3 percent each). Over the past two years, about 160,000 non-Kyrgyz have emigrated, mostly to the Russian Federation.

## Structure of the Economy

The economy of Kyrgyzstan is primarily agricultural, including pasture-based livestock, and produces cotton, wool, leather, silk, hemp, fodder, vegetables, fruit, and grain. In 1990–91, agriculture accounted for about 40 percent of net material product (NMP) and about one third of employment (Table 1). Unlike most other republics of the former U.S.S.R., the private sector accounts for a sizable share of agricultural output, producing between one third and one half of the output of some major crops.

The industrial sector accounts for about one third of NMP. Major industries are metallurgy, agricultural and other machinery, food processing, electronics, and textiles; large sugar refineries are also located in the country. The mountainous terrain and river resources enable Kyrgyzstan to generate substantial hydroelectricity, which is also one of its main exports. Unlike some neighboring republics of the former U.S.S.R., Kyrgyzstan has negligible deposits of gas and oil; however, there are considerable mineral deposits, largely comprising coal, gold, mercury, and uranium. As in other



republics of the former U.S.S.R., Kyrghyzstan's public sector has dominated economic activity. Almost all enterprises, land, and housing are owned by the state, and the public sector employs about three fourths of the labor force.

Reflecting the considerable degree of sectoral specialization of output among the republics of the former Soviet Union, and the relatively small size of the domestic economy, Kyrghyzstan has high ratios of exports and imports to gross domestic product (GDP).<sup>1</sup> Compared with other former Soviet republics, Kyrghyzstan has been considerably more dependent upon interrepublican rather than foreign trading links, especially for exports. In 1990, an estimated 98 percent of total exports were sold within the former U.S.S.R., a figure exceeded within the U.S.S.R. only by Armenia. Of total imports, 73 percent were from other republics of the former Soviet Union, a figure broadly in line with the other republics, but higher than in Russia and Ukraine, which have more extensive foreign trading links.

Kyrghyzstan's interrepublican exports consist of nonferrous metals and minerals (notably gold and mercury), woolen goods, agricultural and food products (mainly refined sugar and tobacco), electric power, electronic goods (consumer products manufactured by a Korean joint venture), and selected engineering products (including agricultural machinery). Kyrghyzstan is heavily dependent on other republics of the former U.S.S.R. for oil and gas supplies, ferrous metals, chemicals and pharmaceuticals, a wide range of engineering products, wood and paper products, most construction materials other than cement, and a variety of foodstuffs.

Exports to countries outside the former U.S.S.R. (foreign exports) have been limited in the past, comprising primarily nonferrous metals and ores (35 percent of the total), food and agricultural products (31 percent), and woolen and silk goods (18 percent). Foreign imports have been primarily consumer goods—mainly clothing and food—and engineering and chemical products. Cuban sugar cane, which is refined for re-export to other former Soviet republics, has been an important import in the past, amounting to about 3 percent of GDP.

## **Institutional Framework for Policymaking**

Following the declaration of independence in August 1991, the Government of Kyrghyzstan has acted rapidly to adapt its institutional and policymaking structure to a more liberal political system and to the needs of a market economy. The Government favors a market-oriented economy open to the rest of the world and regards foreign investment as essential to the future development of the economy. In this connection, in 1991 Parliament passed wide-ranging statutes on privatization, the creation of joint ventures, the liberalization of foreign trade, and the establishment of free economic zones. Other laws and decrees more recently passed or under consideration include laws on concessions for the exploitation of natural resources, customs regulations, the legal basis for the banking system, private business insurance, mortgage facilities, and rural land reform.

With a view to strengthening the reform effort, institutional measures were taken to rationalize the various ministries and agencies. A major reform of the structure of the Government was implemented in February 1992, transforming the existing forty-one ministries into thirteen ministries and seven commissions. The changes included merging of the Ministry of Finance with the State Committee for Planning (Gosplan), to create the Ministry of Economy and Finance, and establishing an independent Tax Inspectorate. At the same time, the number of deputy prime ministers was reduced from six to three, to deal with social affairs, foreign relations, and economic policy issues. These structural changes were accompanied by important personnel changes in key agencies and departments.



Notwithstanding these reforms, the institutions responsible for the transformation of the economy and the implementation of stabilization policies need considerable strengthening. In particular, the National Bank, the Ministry of Economy and Finance, and the Tax Inspectorate must reinforce their abilities to adequately perform their new functions. The activities of the State Committee on Statistics (Goskomstat) must be redirected to underpin the monitoring of developments needed for policymaking in a market economy. In recognition of the scarcity of trained personnel in these areas, the Government has stressed the importance of training and technical assistance in its contacts with other governments and international organizations.



## II. Recent Economic Developments

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Recent economic developments were similar in many ways to developments in the rest of the former U.S.S.R. through most of 1991. In general, policies were in line with those pursued in other former Soviet republics and evolved largely in response to measures introduced in Russia, although in several areas Kyrghyzstan has gone beyond many other republics of the former U.S.S.R. in its reform efforts.

### Output, Employment, and Prices

#### Output and Employment

The growth in real output (NMP) in Kyrghyzstan during the second half of the 1980s was fairly strong but uneven, averaging 3.6 percent a year. In 1991, however, real output is estimated to have declined by 2 percent, largely because agricultural production fell by 8 percent as a result of supply network disruptions. However, industrial output, including mining, rose sharply. Toward the end of the year, overall economic activity began to be increasingly affected by shortages of inputs. In January 1992, industrial output was almost 19 percent lower than a year earlier, and some agricultural production declined even more sharply; the production of certain goods, such as meat, milk, and eggs, declined by 15–27 percent relative to January 1991. However, local private markets for agricultural goods functioned well, and there were no large-scale shortages.

Official statistics show very little open unemployment; however, there are indications that unemployment reached as high as 36,000 in 1991, about 1.5 percent of the labor force, from virtually zero in 1990. The sectoral distribution of employment appears to have been fairly stable. Following a long period of moderate growth, nominal wages started rising sharply in the second quarter of 1991, coinciding with the first phase of the price liberalization in April; by the third quarter of 1991, monthly wages averaged 275 rubles (rub), about 63 percent higher than a year earlier in nominal terms, but lower in real terms. At the end of 1991, wages and salaries in budget-financed organizations were doubled, and the existing restrictions on salary increases in industrial enterprises were rescinded.

#### Prices

In April 1991, in line with the liberalization measures implemented in the rest of the former Soviet Union, price increases were permitted for products estimated to comprise 23 percent of the total sales of state enterprises; prices in private markets, comprising about one half of retail sales in 1990–91, had not been subject to government control. The maximum allowable price increases were determined on the basis of profit margins relative to production costs, with maximum increases ranging from 25 percent to 40 percent; concurrently, the permissible retail margin was raised to 25 percent from 7 percent. Wholesale prices rose by 29 percent in April 1991 and 44 percent in May before the increases subsided to 3 percent in June, whereas retail prices rose by 50 percent in April before subsiding to a rate of increase of 3 percent in the following month. In December 1991, the wholesale price index increased by 288 percent compared with a year earlier, while retail prices rose by 181 percent.



The second stage of price liberalization was implemented on January 4, 1992, in tandem with the liberalization measures in Russia. Price controls were removed on all goods, except for a limited list, whose controlled prices were raised by factors ranging between 3 and 11 relative to the prices in effect on January 3, and for residential rent and heating whose prices were not changed; at the same time, all limits on profit margins were abolished. Subsidies were retained on milk, bread, children's food, residential rent and heating, and some social services. As in the first round of price liberalization, wholesale price increases were substantially larger than the rise in retail prices; wholesale prices increased by 378 percent in January (relative to December 1991), while retail prices rose by 110 percent. The smaller increase in retail prices can be attributed to two factors: a large proportion of retail prices was already freely determined in private markets, and the food prices in state-run institutions were not adjusted in line with wholesale prices, implying increases in food subsidies.

## Public Finances

The Government's finances (the sum of the republican and local budgets) recorded small surpluses in the period 1987–91 if transfers from the former Union are included (Table 2). Although expenditures grew faster than revenues, the difference was financed by increased transfers from the former Soviet Union and, in 1991, from Russia. Between 1987 and 1991, net external budgetary support increased from 6 percent of GDP (rub 390 million) to 13 percent of GDP (rub 1,930 million). The fiscal surplus temporarily fell to zero in 1990, largely because of higher outlays on consumer subsidies, but rose to almost 5 percent of GDP in 1991 when direct transfers from the former Soviet Union to the budget increased and consumer subsidies and capital expenditures were cut sharply.

The government sector contracted relative to GDP in 1991. Tax revenue plunged to 18 percent of GDP compared with 26 percent of GDP in the previous year, while expenditures fell from 38 percent of GDP to 31 percent of GDP. The main factor in the decline in tax revenue was the sharp fall in collections from turnover taxes, which accounted for more than one half of total tax revenue in 1990 and which declined by the equivalent of almost 6 percentage points of GDP in 1991. The turnover tax was levied at the retail level on the difference between the value of sales and the purchase costs of the merchandise. With the increase in wholesale prices far outpacing the rise in retail prices in 1991, turnover tax collections were virtually constant in nominal terms during 1989–91—a period in which nominal GDP doubled. The decline in the ratio of taxes to GDP also reflected the establishment of an independent pension fund to which social security contributions were channeled; social security contributions had accounted for 4 percent of GDP in 1990. (The level of collections by the localities was essentially stagnant due to nonbuoyancy of the tax base of the personal income and land taxes.) Partly offsetting the revenue losses were the Union-wide introduction of a retail sales tax, which yielded the equivalent of 2 percent of GDP in 1991, and sharp increases in nontax revenue.<sup>2</sup>

Against the background of declining revenues, and amid uncertainties as to whether the anticipated grants from the former Soviet Union would be forthcoming, in 1991 measures were implemented to reduce expenditures. Capital outlays were cut sharply from the equivalent of 6 percent of GDP in 1990 to 1 percent in 1991, and expenditures on consumer subsidies from the equivalent of 7 percent of GDP to 5 percent of GDP. However, the wage bill increased slightly to the equivalent of 7 percent of GDP in 1991 as the salaries of workers in the education and health sectors were doubled.<sup>3</sup>



## Money and Credit

In past years, monetary and credit developments mostly reflected the former Soviet Union's policies; the U.S.S.R. Gosbank centralized all credit resources and allocated them among the various republics according to the credit plan. After mid-1990, however, credit allocation was increasingly decided at the republican level, with the resource gap covered by transfers from the Union, within certain established limits. In 1991, the National Bank of Kyrghyzstan (NBK) received rub 3 billion from the Gosbank to cover its resource gap, of which rub 1 billion was in currency.

Total credit to the economy is estimated to have increased by 117 percent in 1991 with the bulk of the increase occurring in the wake of the price reforms undertaken in April (Table 3). The maturity structure of bank lending contracted sharply as short-term credit grew by 143 percent, while growth in long-term credit was 41 percent. In order to stem the increase in credit, the rediscount rate was raised from 8 percent to 12 percent in mid-1991 and other interest rates were partly liberalized, although all rates remained highly negative in real terms. In contrast to the expansion in credit to the economy, net credit to the Government declined sharply, reflecting the fiscal surplus that resulted in a 160 percent increase in government deposits in the banking system. (So far, Government deposits have been held mainly at a commercial bank rather than at the National Bank.) Broad money declined in real terms despite a virtual doubling of deposits and a substantial increase in the stock of currency issue. The total capital of financial institutions in Kyrghyzstan increased sharply in 1991, mainly because of the establishment of new commercial banks and an increase—financed by former Soviet Union institutions—in the paid-up capital of the formerly specialized banks.

## Balance of Payments and External Debt

Between 1987 and 1990, interrepublican trade was broadly stable, with annual exports at about rub 2.3–2.5 billion and imports at about rub 2.8–3.4 billion, although relative to GDP both exports and imports declined significantly to 30 percent and 35 percent, respectively (Table 4). In 1991, price liberalization resulted in a substantial rise in nominal exports and imports, despite the general disruption in trade flows in the former Soviet Union. Exports rose to rub 6.3 billion and imports to rub 5.4 billion, implying a swing from a merchandise trade deficit in 1990 (5 percent of GDP) to a substantial surplus in 1991 (6 percent of GDP). The decline in net imports relative to earlier years probably reflected a combination of domestic fiscal tightening and inventory demand from other republics.<sup>4</sup>

Foreign (convertible currency) trade appears to have declined dramatically during 1991 after several years of virtual stability in exports and rising imports. Measured in U.S. dollars, exports fell by about three fourths, while imports declined by roughly two thirds. Exports declined in all industries, while imports fell sharply for all commodities except agricultural and engineering products. The two largest categories of imports, food products and clothing, fell by 75 percent and 85 percent, respectively. As a result of these developments, Kyrghyzstan's foreign trade deficit narrowed to a little over 6 percent of GDP. The contraction of the deficit on foreign trade, combined with a surplus on interrepublican trade, is estimated to have resulted in a net balance in overall trade.

Kyrghyzstan adopted decrees revising the country's convertible-currency surrender requirements in December 1991 and February 1992. As under the preceding Union arrangements, surrender rates are differentiated by export product type, but the range of surrender requirement rates has been broadened, and the average rate reduced from about 70 percent to about 50 percent. However, as of mid-February, the authorities had received very little foreign currency through this



mechanism, since foreign trade has slumped and much of what continues is conducted through barter arrangements, to which surrender requirements do not apply. As a result, convertible currency allocation is limited to exceptional needs. Kyrghyzstan has not yet established an interbank market in convertible currencies or foreign exchange auction arrangements, although these have been identified as objectives for 1992.

In late 1991, Kyrghyzstan signed the external debt agreement with the Group of Seven major industrial creditor countries. As a result of an interrepublican agreement, Kyrghyzstan was assigned a share of 0.96 percent of the former Soviet Union's total external debt. Kyrghyzstan also borrowed rub 229 million from Russia in 1991, on which service payments begin in 1994.



### III. Policies and Prospects for 1992

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Kyrgyzstan's macroeconomic situation in 1992 is grave. The outlook is for a major contraction in output, and a sharply rising unemployment rate. Moreover, high inflation rates will decline only as tightened financial policies are implemented in the ruble area. The key factors behind this bleak outlook are: (1) a major terms of trade shock resulting, in large part, from increases in the prices of petroleum products; (2) the likely absence of substantial assistance from Russia and, on present indications, from foreign sources; and (3) disruptions in interrepublican trade, coupled with considerable uncertainties regarding the possibilities for convertible currency trade.

Although the short-term outlook appears difficult, prospects are more promising over the medium term because the country has substantial resources in important minerals (including gold and rare earths), agro-processing, hydroelectric energy, and tourism. However, the development of these and other sectors will require substantial amounts of domestic and foreign capital, technology, and skills. In the immediate future, the Government plans to concentrate on implementing restrained financial policies, coupled with rapid structural reforms in a few key sectors, and on opening the economy to the outside world as soon as possible.

#### Structural Reform and Price Liberalization

Kyrgyzstan's process of structural reform is more advanced than in other countries in the region, in particular with regard to the privatization of enterprises, housing, and agriculture. Privatization was started in 1991 with agricultural land and small businesses, and the Government intends to privatize about 35–40 percent of fixed assets in the economy (approximately rub 8 billion) by the end of 1992, including closing about 200 loss-making state enterprises that the government budget cannot afford and that are not financially viable without subsidies or price controls. However, in the short term, an adequate assessment of the financial viability of enterprises is hindered by a domestic price structure that is still well below world prices. The Government is considering a number of options, including direct sales of the large state factories and the auctioning of small enterprises. (See Annex 4 for a description of the privatization program.)

The privatization process has been facilitated by the establishment of a National Enterprise Fund (NEF) in 1991. The NEF finances private purchases of small and medium-sized state businesses through interest-free loans to individuals; its resources are projected to be rub 3 billion in 1992. The demand for NEF credits and assistance has been sizable. However, NEF loans do not yet have a fixed maturity, and rules for granting loans have not yet been clarified. In addition to providing interest-free loans for small businesses, the Government plans to facilitate the privatization process by crediting an account for all citizens with a one-time lump-sum payment; the credit will be based on average income and the number of years in employment and can be used only for the purchase of homes or shares of privately owned enterprises.

Price liberalization is also more advanced in Kyrgyzstan than in some other republics of the former U.S.S.R. About 90 percent of all prices had been liberalized by January 1992, and even though the price of petroleum products remained controlled, any further increases in energy prices are to be fully reflected in domestic prices and utility tariffs. While the movement toward a market economy and liberalized prices will help rationalize production incentives, growth in Kyrgyzstan will be constrained until obstacles to interrepublican and domestic trade are removed. In this connection, a rapid phasing



out of the system of direct state orders to the economy would result in greater freedom for interenterprise trade. If state enterprises were given more autonomy, and the privatization program in the area of retail trade, distribution, and transportation accelerated, the supply situation would improve.

## Public Finances

The Government has attempted to limit the deterioration in its finances. Following the price liberalization, a revised budget was adopted in January 1992 that projected an overall fiscal deficit of rub 2.5 billion.<sup>5</sup> However, this budget did not include external interest obligations of the Government, estimated at US\$53 million, and it classified certain financing items as revenues.<sup>6</sup> If adjustments are made for these items, the deficit would be equivalent to rub 5.1 billion (5 percent of GDP).<sup>7</sup>

The revised budget projected significant reductions in revenues and expenditures in proportion to GDP. Besides the total loss of substantial transfers from the former Soviet Union, tax revenues were expected to fall from almost 18 percent of GDP in 1991 to 11 percent of GDP in 1992. As in other countries, Kyrgyzstan introduced tax reform, consisting mainly of repeal of the turnover and sales taxes, accompanied by the introduction of a 28 percent value-added tax (VAT) and excise taxes; moreover, the profit tax was simplified, and its rate reduced from 45 percent to 35 percent for most enterprises. Even though state enterprises previously owned by the former Soviet Union began to make tax payments to the republic and local governments as of 1992,<sup>8</sup> the revised budget foresees a decrease in revenues from profit taxes, from the equivalent of 4 percent of GDP in 1991 to 2.6 percent of GDP, owing to a sharp fall in profitability.<sup>9</sup>

The Government's budget calls for total expenditures to decline sharply to the equivalent of 16 percent of GDP from 31 percent in 1991. Even though wages were increased by 100 percent at the beginning of 1992, the wage bill is budgeted to increase by 186 percent because of the addition of locally based civil servants of the former Soviet Union. Nevertheless, the Government expects the wage bill to fall from the equivalent of 7 percent to 3 percent of GDP. Outlays for consumer subsidies are also budgeted to fall relative to GDP, from 5 percent in 1991 to 1.5 percent in 1992. Although subsidies on corn and bread, coal, transportation, and housing maintenance were raised sharply in nominal terms, other subsidies (on meat and materials for light industries) were eliminated. Capital expenditures are also budgeted to fall sharply relative to GDP because the Government is only supporting on-going investment projects and certain high-priority new projects.

The revised 1992 budget was adopted during a period of considerable uncertainty regarding the outlook for key parameters such as inflation, exchange rates, output, and the level of common CIS expenditures. In general, the budget underestimates the prospective terms of trade shock on the economy, notably on output; consequently, tax receipts are likely to be lower than expected and expenditures may well turn out to be higher than budgeted.

In view of the decline in living standards of the population and the increase in unemployment levels expected to accompany the transition to a market economy, Kyrgyzstan has strengthened its social security and welfare systems. In addition to subsidizing several essential consumer goods and services, including imposing a freeze on housing rents and maintenance charges, the Government created an employment fund in mid-1991. While the fund will provide direct payments to the unemployed, its main emphasis is on retraining and job-creation measures. (See Annex 3 for a summary of the features of the pension and employment funds.)

## Money and Credit

Monetary conditions during 1992 will largely be determined by the policies followed by the Central Bank of Russia. Kyrgyzstan's monetary and credit policies will have to be tightened in



1992 as part of common efforts in the ruble area to reduce pressures on prices and stabilize the currency. The NBK intends to increase reserve requirements as well as the rediscount rate in coordination with other states in the ruble area, and to keep its refinance credit within the limits of its own resources.

The NBK projects the need for new currency issue at rub 2.5 billion in 1992, equivalent to 87 percent of the entire stock of currency issue at end-1991. This amount, however, could be revised if wages and salaries are increased during the year. Shortages of currency notes have already been reported, and, in order to alleviate this problem, the Government is encouraging the use of checks and noncash settlements. The limit on total lending to the Government in 1992 will be set by the Parliament, although in January the budget financing by the NBK was estimated at an amount far below the range of fiscal deficits projected for the year. The NBK plans to charge an interest rate of 6 percent on the credits extended to finance the 1992 deficit and a rate of 8 percent on the financing of the "state debt," including the internal debt of the country and the financing of write-offs of loans to agro-industrial enterprises. On the basis of the projected amount of credit to the Government, the NBK had already begun to limit the access of banks to refinance credit; however, the refinance rates are still highly negative in real terms.

Closer coordination with Russia and other members of the ruble area is vitally important in the areas of monetary, credit, and interest rate policies. Consistent with general ruble-area policies, measures to increase intermediation by the banking system are needed. Such measures include liberalizing all interest rates, increasing the lowest deposit rate of the Savings Bank, removing the limit on the margin between the average cost of funds and the lending rates of financial institutions, and increasing the refinance rate of the NBK to a level higher than the anticipated inflation rate. The NBK should not be used to allocate credit on a sectoral basis and, with the aim of further discouraging the practice of virtually unlimited recourse to bank credit by enterprises, it should set limits on access by banks to its refinance facility. Moreover, in order to foster competition in the banking system and increase deposit mobilization by commercial banks, thereby reducing their dependence on refinancing from the NBK, the preferential treatment granted to Savings Bank deposits could be eliminated.

The amount of nonperforming loans of the banking system, although unknown, is estimated to be large, given the past (and continued) practice of granting loans to unprofitable enterprises. Under these circumstances, these loans must be written off and the banks' balance sheets cleaned up so as to avoid the potentially disastrous effect of an increase in interest rates on the banking system; as previously protected enterprises begin operating in the new economic environment, and in view of the expected decline in output, the problem of nonperforming bank assets is likely to become serious. In this regard, efforts to deal with non-performing assets of banks must be closely linked to the privatization program and the liquidation of nonviable enterprises. Recapitalization of the larger banks has already been implemented, but the magnitude of potential losses relative to bank capital is not known.

## **External Trade and Payments**

Under present circumstances, and despite an anticipated severe decline in output that will compress imports, the outlook is for a large external financing gap in 1992; it is also likely that sizable external financing will continue to be needed for some years to come. Although Kyrgyzstan's estimated export potential in convertible currencies could be more than three times its level during 1987-90, notably from mineral exports, this adjustment cannot be achieved in the short run and would, in any case, cover only a fraction of Kyrgyzstan's former convertible currency imports. Projections for interrepublican trade are highly uncertain for 1992, resulting in large part



from the pattern of price increases for traded goods following price liberalization and the nonimplementation of bilateral trading agreements among republics of the former U.S.S.R. Based on the current ratio of domestic to world prices, Kyrghyzstan is likely to suffer a large terms of trade loss in 1992 as a result of price liberalization, particularly the increases in petroleum prices.

Given the importance of interrepublican trade for Kyrghyzstan and the detrimental effect that its disruption has had on output, the emergence of flexible and unrestricted interrepublican trading arrangements would have a positive effect. In this regard, several issues could be addressed jointly with other former Soviet republics (1) the phased elimination of the role of republican authorities in determining trade contracts; (2) termination of the quota system governing the distribution of enterprise output between domestic and interrepublican or foreign sales; (3) steps to avoid new barriers to interrepublican trade, involving the creation of a mechanism for resolving interrepublican trade conflicts; (4) the coordination of further progress on price liberalization among states; and (5) improvements in the clearing mechanisms among the national central banks.

The Government prefers to remain in the ruble area for the time being, in view of the considerable benefits that would result for Kyrghyzstan, notably in the area of trade, if the inflation rate were rapidly brought down and the currency stabilized. However, there is concern regarding the lack of adequate coordination of financial policies among the member states, as well as the potential for difficulties if the countries issuing separate currencies do not retire existing rubles in an orderly fashion. Unless the macroeconomic situation improves during the course of this year, contingency plans might have to be drawn up for Kyrghyzstan to issue its own currency.

Kyrghyzstan produces small amount of gold each year that, until late 1991, were contributed to the centralized gold holdings of the former Soviet Union. Despite the pressures on the balance of payments in 1992, Kyrghyzstan intends to accumulate gold output with a view to building up its external reserves. The Government is making a major effort to attract foreign investment into the country, particularly in the minerals, electronics, and agro-processing sectors; several contracts have been signed, and others are under negotiation for a total amount of around US\$300 million. The Government estimates that net inflows in 1992 may reach as much as US\$50 million, compared with levels of US\$20 million or less in earlier years.



## IV. Technical Assistance

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Kyrgyzstan needs technical assistance in virtually every area of economic management. This need for technical assistance, however, also limits Kyrgyzstan's ability to absorb and implement generalized technical assistance simultaneously in several areas; moreover, in order to be effective, technical assistance will need to be heavily biased in favor of a "nuts and bolts" approach. Technical assistance should be focused with two objectives in mind: first, to urgently develop Kyrgyzstan's ability to effectively underpin the implementation and monitoring of stabilization policies, with an emphasis on the basic operational aspects of economic and financial management; second, to strengthen the country's institutional framework and support a comprehensive approach to structural and macroeconomic reforms.

In the area of central banking, the NBK should be further strengthened to allow it to adequately perform its functions. Given the NBK's limited absorptive capacity and the immediate needs of the economy, the priorities for technical assistance should be in the areas of accounting practices, foreign exchange operations and reserves management, and banking supervision, with the first two areas being given the highest priority.

In the fiscal area, the priority areas for technical assistance are tax policy and administration, in particular the implementation of the VAT, and budget design and procedures. In the area of statistics, there is an urgent need for assistance and training in monetary and balance of payments statistics, as well as for help to Goskomstat to design procedures for data collection and processing.



## V. Summary and Conclusions

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The dissolution of the former U.S.S.R. and the accompanying disruptions in economic links have had an adverse impact on those small countries that were dependent upon substantial transfers from the former Union and whose economies were highly integrated into the centrally planned system. As one of these countries, with an economic structure that involved imports of virtually all consumer goods, grain, and petroleum products, Kyrgyzstan has been particularly hard hit.

The overall economic situation had already begun to deteriorate significantly in 1991. In particular, output declined in real terms, inflation increased sharply, unemployment began to rise markedly, and serious shortages of essential goods emerged. For the first time, the Government was faced simultaneously with the complex issues of political independence, the design and implementation of macroeconomic stabilization policies, coordination within the new political and economic relationships in the ruble area, and the initiation of systemic change. The task has been made even more difficult by the lack of adequate institutional structures and skills in virtually every area of economic management.

Against this background, the Government has moved quickly into the process of political and economic liberalization. New laws and decrees, which have either been undertaken recently or are expected shortly, include a liberal foreign investment code; a law on concessions for the exploitation of natural resources; customs regulations; and the legal basis for the banking system, private business insurance, mortgage facilities, rural land reform, and the privatization of state enterprises. These are all significant steps toward a more efficient economy. Moreover, important changes have been initiated to rationalize key ministries and agencies, appoint new personnel, and provide a clearer focus to the implementation of the reform efforts. With regard to macroeconomic policies, substantial efforts have been made to limit the deterioration in government finances, contain the expansion of credit, and move toward a more realistic structure of domestic prices.

Notwithstanding the progress that has been made in recent months, the macroeconomic situation in 1992 is a matter for concern. The outlook is for a major contraction in output, sharply rising unemployment, and a substantial external financing gap. Moreover, the present high inflation rates will decline only as tightened financial policies are implemented in the ruble area. The key factors behind this outlook are the likelihood of little, if any, transfers from Russia and the uncertain prospects for external financial assistance; disruptions in interrepublican trade coupled with limited possibilities for rapid increases in convertible currency trade; and, the impact of a terms of trade shock resulting from increases in the prices of imported petroleum products.

Although the short-term outlook appears difficult, economic prospects look more promising over the medium term because the country has substantial untapped potential. The exploitation of this potential will need both domestic and foreign capital, technology, and skills, all of which are severely limited at present. Moreover, macroeconomic stabilization is a precondition to the generation of adequate levels of saving and investment.



## Notes

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1. Interrepublican exports and imports are estimated to have amounted to 34–37 percent and 43–44 percent of GDP, respectively, during 1987–89; foreign (convertible currency) exports and imports accounted for another 1 percent and 11–12 percent of GDP, respectively.

2. Substantial receipts were generated from taxes on the windfall gains resulting from inventories held by state enterprises which benefited from the sharp price increases of April 1991, and larger collections of road and vehicle fees.

3. The economic classification of expenditure is based on actual data for 1990. The data for 1991 and the revised 1992 budget, are based on estimates of total current expenditures, capital expenditures, wages and salaries, subsidies, and the amounts of former U.S.S.R./Commonwealth of Independent States (CIS) payments. The apportionment among other goods and services, operations and maintenance, and transfers are IMF staff estimates based on the actual allocations in 1989–90.

4. In light of the consistent record of trade deficits in earlier years, the 1991 estimate must be viewed with some caution, particularly given the change in statistical compilation procedures relative to earlier years. Notwithstanding this, the sharp tightening of the fiscal stance in 1991 is likely to have had a significant impact on imports; Kyrghyzstan may have also benefited from a temporary surge in export demand. The partial liberalization of prices during 1991 was accompanied by ceilings on profitability as a proportion of costs. This restriction was commonly evaded by artificially boosting production costs through, for example, excessive inventory accumulation. Over 80 percent of the rise in Kyrghyzstan's exports to other republics of the former U.S.S.R. in 1991 was in commodities that enterprises might plausibly hold as inventories: metals, chemicals, engineering products, construction materials and woolen products. The impact of these developments on Kyrghyzstan's imports may have been less visible because of a relatively smaller enterprise sector, with consumer good imports being predominant.

5. The Government prepared the 1992 budget in the fall of 1991, and Parliament approved a modified version in December 1991. However, the budget was based on current prices at the time of its passage and did not account for the effect of the impending liberalization of prices. Instead, the Parliament gave the Government the right to adjust the budget on the basis of price changes. In January 1992, the Government issued a revised budget, which was adjusted for the increase in prices during that month.

6. The Government budget treats its current bank balances as revenue. This so-called leftover financing was rub 400 million in 1992, compared with rub 100–200 million in previous years.

7. The ratios of revised budget projections to GDP are likely to be underestimates, since there are indications that the inflation rate implicit in the revised budget estimates will be exceeded by a wide margin.

8. These enterprises transferred rub 650 million to the former Soviet Union in 1991, an amount equivalent to the entire tax collection from state enterprises owned by Kyrghyzstan.

9. The decrease in profitability appears to be the result of direct government intervention in price setting. Although prices were liberalized, state enterprise prices are still subject to review. The Government uses a cost-plus approach to pricing that is designed to contain the nominal level of enterprise profits, leading to a sharp decrease in real profit levels.



Table 1. Capital and Film Expenditures  
 1950-1954 (in millions of dollars)

**Tables**

	1950	1951	1952	1953	1954
Capital expenditures	100	110	120	130	140
Film expenditures	15	18	20	22	25
Total	115	128	140	152	165
Operating expenses	10	11	12	13	14
Depreciation	5	5	5	5	5
Amortization	5	5	5	5	5
Interest	5	5	5	5	5
Income taxes	5	5	5	5	5
Dividends	5	5	5	5	5
Other	5	5	5	5	5
Total	50	55	60	65	70
Net income	65	73	80	87	95
Retained earnings	10	12	15	18	22
Dividends paid	5	5	5	5	5
Other	5	5	5	5	5
Total	25	32	35	38	42
Net change in equity	40	41	45	49	53
Beginning	100	140	185	234	287
Ending	140	181	230	283	340
Total	100	140	185	234	287



Table 1. Output and Price Indicators

(In percent, unless otherwise indicated)

	1987	1988	1989	1990	1991 Prel.
Composition of net material product (NMP)					
Agriculture	40	40	42	43	36
Industry	35	35	33	32	45
Construction	13	13	12	12	8
Transport and communication	4	4	4	4	3
Other	8	9	9	9	8
Composition of gross domestic product (GDP)					
By final use					
Household consumption	58	58	61	61	...
Government consumption	23	22	20	21	...
Gross fixed capital formation	31	29	32	29	...
Change in stocks <sup>1</sup>	7	8	8	5	...
Trade balance	-19	-17	-22	-17	...
By income					
Compensation of employees	53	51	50	51	...
Operating surplus	31	32	34	33	...
Consumption of fixed capital	16	17	16	16	...
Growth in NMP	1	11	3	4	-2
Consumer prices <sup>2</sup>	--	--	--	3	181
Wholesale prices <sup>2</sup>	--	--	1	1	288
Average monthly wages (in rubles)	171	184	198	215	321 <sup>3</sup>
NMP (in millions of rubles)	4,510	4,946	5,554	6,027	11,152
GDP (in millions of rubles)	6,278	6,940	7,620	8,320	15,170

Sources: Kyrghyzstan Goskomstat; and IMF staff estimates.

<sup>1</sup>Including losses in fixed assets and stocks.

<sup>2</sup>Average for 1987-90; December-December for 1991.

<sup>3</sup>Third-quarter average.



Table 2. Summary of Fiscal Operations

	1987	1988	1989	1990	1991	1992 Revised Budget
<i>(In billions of rubles)</i>						
Total revenue and grants	2.38	2.60	2.89	3.21	5.43	11.97
Tax revenue	1.76	1.83	2.13	2.18	2.66	11.41
Turnover tax	(0.86)	(0.92)	(1.15)	(1.17)	(1.17)	(--)
Value-added tax (VAT)	(--)	(--)	(--)	(--)	(0.30)	(5.13)
Excise duties	(--)	(--)	(--)	(--)	(--)	(3.26)
Profits tax	(0.32)	(0.29)	(0.27)	(0.36)	(0.65)	(2.72)
Other	(0.58)	(0.62)	(0.70)	(0.65)	(0.53)	(0.31)
Nontax revenue	0.23	0.15	0.22	0.12	0.84	0.55
Union grants (net)	0.39	0.62	0.54	0.91	1.93	--
Total expenditure	2.23	2.51	2.73	3.18	4.73	17.05
Current expenditure	1.92	2.12	2.34	2.71	4.53	16.30
Wages	(0.43)	(0.46)	(0.48)	(0.53)	(1.11)	(3.18)
Goods, services, and maintenance	(0.60)	(0.67)	(0.77)	(0.84)	(1.40)	(4.53)
Interest	(--)	(--)	(--)	(--)	(--)	(2.20)
Transfers	(0.52)	(0.59)	(0.71)	(0.76)	(1.28)	(4.13)
Subsidies	(0.37)	(0.40)	(0.38)	(0.57)	(0.75)	(1.49)
CIS payments	(--)	(--)	(--)	(--)	(--)	(0.77)
Capital expenditure	0.31	0.39	0.39	0.48	0.19	0.75
Overall balance	0.15	0.09	0.16	0.02	0.70	-5.09
<i>(In percent of GDP)</i>						
Total revenue and grants	37.9	37.5	38.0	38.5	35.7	
Tax revenue	28.0	26.4	28.0	26.3	17.5	
Taxes on goods and services	(13.7)	(13.2)	(15.1)	(14.1)	(9.7)	
Profits tax	(5.2)	(4.2)	(3.6)	(4.3)	(4.3)	
Union grants (net)	6.3	8.9	7.1	10.9	12.7	
Total expenditure	35.6	36.2	35.9	38.3	31.1	
Current expenditure	30.6	30.5	30.7	32.5	29.8	
Wages	(6.9)	(6.7)	(6.3)	(6.4)	(7.3)	
Transfers	(8.2)	(8.4)	(9.3)	(9.2)	(8.4)	
Subsidies	(5.9)	(5.8)	(5.0)	(6.9)	(4.9)	
Capital expenditure	5.0	5.7	5.2	5.7	1.3	
Overall balance	2.3	1.3	2.1	0.3	4.6	
<i>(In percent of total revenue)</i>						
Tax revenue	73.9	70.4	73.7	68.2	49.0	95.4
Taxes on goods and services <sup>1</sup>	(36.1)	(35.3)	(39.9)	(36.6)	(27.2)	(70.1)
Profits tax	(13.6)	(11.3)	(9.5)	(11.2)	(12.1)	(22.7)
Nontax revenue	9.5	5.8	7.6	3.6	15.5	4.6
Union grants (net)	16.6	23.8	18.7	28.2	35.5	--
<i>(In percent of total expenditure)</i>						
Current expenditure	86.0	84.3	85.6	85.1	95.9	95.6
Wages	(19.3)	(18.5)	(17.4)	(16.8)	(23.4)	(18.7)
Transfers	(23.1)	(23.3)	(26.1)	(24.0)	(27.0)	(24.2)
Subsidies	(16.7)	(16.0)	(14.0)	(18.0)	(15.9)	(8.7)
CIS payments	(--)	(--)	(--)	(--)	(--)	(4.5)
Capital expenditure	14.0	15.7	14.4	14.9	4.1	4.4

Sources: Kyrgyzstan Ministry of Finance, Office of the President; and IMF staff estimates.

<sup>1</sup>Includes turnover tax, sales tax (1991 only), VAT, and excises.



### Table 3. Monetary Survey<sup>1</sup>

	1990	1991	<u>Percentage changes</u> 1990-91
<i>(In millions of rubles)</i>			
Net external claims	1,765	3,983	126
Net domestic assets	3,607	5,905	64
Credit to Government (net)	153	-145	-195
Credit to the economy	3,864	8,398	117
Other items (net) <sup>2</sup>	1,607	596	-63
Discrepancy <sup>3</sup>	-2,016	-2,944	46
Liabilities of the banking system			
Broad money	5,373	9,888	84
Currency	1,766	2,883	63
Deposits	3,607	7,005	94
Of which: Savings bank deposits	2,093	3,146	50
Ratios to GDP <span style="float: right;"><i>(In percent)</i></span>			
Net domestic assets	43	39	
Credit to Government	2	-1	
Credit to the economy	46	55	
Broad money	65	65	
Deposits	43	46	
Change as a percentage of beginning-period money stock			
Net foreign assets		41	
Net domestic assets		43	
Credit to Government		-6	
Credit to the economy		84	

Sources: National Bank of Kyrgyzstan (NBK); and IMF staff estimates.

<sup>1</sup>Data are for December 31 in each year. The monetary survey was prepared on the basis of a "uses and resources" table that the NBK used to compile for the U.S.S.R. Gosbank and the consolidated balance sheet of the banking system. There are serious problems of consistency and classification with these data, and consequently the resulting monetary survey is at best preliminary. In general, it is not possible to unambiguously identify the ownership of a number of accounts or the maturity of deposits. Moreover, there are more assets than liabilities in the consolidated balance sheet of the banking system. Important items, such as the Reserve Fund and the Loan Fund, are recorded as off-balance-sheet items. In addition, Savings Bank deposits (which include virtually all household deposits), are not included in the balance sheet of the banking system.

<sup>2</sup>Includes the difference between identified assets and liabilities of the savings bank.

<sup>3</sup>Calculated as a residual; includes noncash advances from the Union.



Table 4. Balance of Payments<sup>1</sup>

	Interrepublican					Foreign				
	1987	1988	1989	1990	1991	1987	1988	1989	1990	1991
	(In millions of rubles)					(In millions of U.S. dollars) <sup>2</sup>				
Current account balance	-104	183	-273	488	2,886	-1,060	-1,167	-1,378	-1,684	-590
Merchandise trade balance	-498	-435	-813	-417	958	-1,060	-1,167	-1,378	-1,650	-555
Exports <sup>3</sup>	2,269	2,537	2,549	2,446	6,331	87	97	81	88	23
Imports <sup>3</sup>	2,767	2,972	3,362	2,863	5,373	1,147	1,264	1,459	1,738	578
Interest <sup>4</sup>									-34	-36
Net Union fiscal transfer	394	618	540	905	1,928				32	44
Net credit inflows					229				105	120
Disbursements <sup>5</sup>					229				-73	-76
Amortization <sup>5</sup>										
Overall balance <sup>6</sup>				488	2,115				-1,637	-531
Memorandum items:										
Current account										
(in percent of GDP)	1.7	2.6	3.6	5.9	19.0	...	...	...	-12.1	-6.8
Exports										
(in percent of GDP)	36.1	36.6	33.4	29.4	41.7	0.9	0.9	0.7	0.6	0.3
Imports										
(in percent of GDP)	44.1	42.8	44.1	34.4	35.4	11.6	11.2	12.3	12.5	6.7

Sources: Kyrgyzstan Goskomstat, Committee on Foreign Economic Relations; Kyrgyzstan Ministry of Finance; and IMF staff estimates.

<sup>1</sup>Data relating to Kyrgyzstan's balance of payments are limited. Merchandise trade estimates are available for both foreign and interrepublic trade, and estimates for net transfers between the Union and republican authorities were obtained from the fiscal accounts. Beyond this point, data are generally unavailable, fragmentary, or unreliable. Moreover, there are grounds for caution in regard to the data that are available because Kyrgyzstan's authorities formerly had little direct information on the trading activity of many enterprises located within the republic. Goskomstat notes that the 1991 accounts, unlike those for earlier years, will exclude trade in military and other goods of "special value." The accounts may also fail to fully capture the recent emergence of trading activity conducted without governmental control, particularly for nonlicensed merchandise. The balance of payments estimates presented, therefore, only provide a broad summary of Kyrgyzstan's balance of payments situation.

<sup>2</sup>Converted at the commercial exchange rate in ruble per U.S. dollar of 0.63 in 1987, 0.61 in 1988, 0.63 in 1989, and 1.75 in 1990.

<sup>3</sup>At domestic prices, i.e. net of union trade taxes and subsidies.

<sup>4</sup>Kyrgyzstan's 0.96 percent share of interest obligations on Union debt.

<sup>5</sup>Share of Union borrowing, and principal repayments.

<sup>6</sup>Excludes all interrepublican private capital and services flows.



## Table 5. Basic Data

### Social and demographic indicators (1990)

Area	198,500 sq. km.
Population	4.4 million
Rate of population growth	2.2 percent
Life expectancy at birth	68.5 years
Male	64.3 years
Female	72.4 years
Infant mortality rate	29.9 per thousand
Doctors per 10,000 people	36.7
Hospital beds per 10,000 people	119.8
Labor with some secondary education	93 percent

	1987	1988	1989	1990	1991
	<i>(Percentage change)</i>				
Real NMP	1	11	3	4	-2
Nominal NMP	3	10	12	9	85
Retail prices <sup>1</sup>	--	--	--	3	181
Wholesale prices <sup>1</sup>	--	--	1	1	288
Broad Money	...	...	...	...	84
Currency issue	11	8	10	12	63
Deposits	...	...	...	...	94
Bank credit to Government	...	...	...	...	-195
Bank credit to the economy	...	...	...	...	117
<i>Origin of NMP</i>	<i>(Percent)</i>				
Agriculture	40	40	42	43	36
Industry	35	35	33	32	45
Construction	13	13	12	12	8
Transport and communication	4	4	4	4	3
Other	8	9	9	9	8
	<i>(Percent of GDP)</i>				
Government revenue and grants	37.9	37.5	38.0	38.5	35.7
Net Union transfers	6.3	8.9	7.1	10.9	12.7
Government expenditures	35.6	36.2	35.9	38.3	31.1
Overall balance	2.3	1.3	2.1	0.3	4.6
Exports					
Foreign <sup>2</sup>	0.9	0.9	0.7	0.6	0.3
Interrepublican	36.1	36.6	33.4	29.4	41.7
Imports					
Foreign <sup>2</sup>	11.6	11.2	12.3	12.5	6.7
Interrepublican	44.1	42.8	44.1	34.4	35.4
Current account					
Foreign <sup>2</sup>	...	...	...	-12.1	-6.8
Interrepublican	...	...	...	5.9	19.0
Broad Money	...	...	...	65	65



Table 5 (concluded)

	1987	1988	1989	1990	1991
<i>(In billions of rubles)</i>					
<b>General Government</b>					
Revenues and grants					
Net Union transfers	2.4	2.6	2.9	3.2	5.4
Expenditures	0.4	0.6	0.5	0.9	1.9
Overall balance	2.2	2.5	2.7	3.2	4.7
	0.2	0.1	0.2	--	0.7
<b>Interrepublican trade</b>					
Merchandise exports	2.3	2.5	2.5	2.4	6.3
Merchandise imports	2.8	3.0	3.4	2.9	5.4
<i>(In millions of U.S. dollars)</i>					
<b>Foreign trade<sup>2</sup></b>					
Merchandise exports	87	97	81	88	23
Merchandise imports	1,147	1,264	1,459	1,738	578
<i>(In billions of rubles)</i>					
NMP	4.5	4.9	5.6	6.0	11.2
GDP	6.3	6.9	7.6	8.3	15.2

Sources: Kyrgyzstan authorities; and IMF staff estimates.

<sup>1</sup>Averages for 1987-90, December-December for 1991.

<sup>2</sup>Converted at commercial exchange rates (in rubles per U.S. dollar) of 0.63 in 1987, 0.61 in 1988, 0.63 in 1989, 0.60 in 1990, and 1.75 in 1991.



**Table 6. Net Material Product**  
(In millions of rubles)

	1987	1988	1989	1990	1991 Prel
NMP	4,510	4,946	5,554	6,027	11,152
Agriculture	1,806	1,960	2,315	2,599	4,058
Industry	1,569	1,708	1,849	1,919	5,054
Construction	587	647	671	720	864
Transport and communications	169	188	200	231	307
Foreign trade	--	2	15	20	10
Other	379	442	505	537	859

Source: Kyrghyzstan Goskomstat.



Table 7. Gross Domestic Product  
(In millions of rubles)

	1987	1988	1989	1990
GDP	6,278	6,940	7,620	8,320
By final use				
Household consumption	3,654	4,012	4,662	5,106
Government consumption	1,437	1,531	1,562	1,757
Gross fixed capital formation	1,933	1,994	2,452	2,416
Change in stocks	334	463	540	334
Trade balance	-1,166	-1,147	-1,681	-1,407
Losses in fixed assets and stocks	86	87	85	115
By income				
Compensation of employees	6,278	6,940	7,620	8,320
Operating surplus	3,299	3,524	3,786	4,237
Consumption of fixed capital	1,965	2,219	2,581	2,758
	1,015	1,198	1,253	1,325

(In percent)

By final use				
Household consumption	58	58	61	61
Government consumption	23	22	20	21
Gross fixed capital formation	31	29	32	29
Change in stocks <sup>1</sup>	7	8	8	5
Trade balance	-19	-17	-22	-17
By income				
Compensation of employees	53	51	50	51
Operating surplus	31	32	34	33
Consumption of fixed capital	16	17	16	16

Sources: Kyrghyzstan Goskomstat; and IMF staff estimates.

<sup>1</sup>Includes losses in fixed assets and stocks.



Table 8. Maximum Price Increases of Controlled Goods  
(As of January 4, 1992, relative to January 3, 1992)

Goods and Services	Maximum Price Increases Relative to 1/3/92, Unless Otherwise Indicated
<i>Manufacturing inputs</i>	
Coal	
Kyrghyz type	7.5
Energy type	5
Coking coal	8
Oil and associated gas	5
Compressed gas	5
Natural gas and other gas products	5
Motor fuel and kerosene	4.8
Electricity	4.2
For agriculture	51 kopek per kwh
For manufacturing	8.5
Strategic minerals and precious metals	To be established by the Government
<i>Transport services (average)</i>	
Interrepublican	4
Local	5
Air freight	8.3
Water transportation	4
Road hauling	3
	3



Table 8 (concluded)

Goods and Services	Maximum Price Increases Relative to 1/3/92, Unless Otherwise Indicated
<i>Consumer products</i>	
Milk, yogurt, farmer's cheese	4.6
Bread	5.2
Flour	5.2
Salt	4
Sugar	2.6
Oil	3
Food for children	3
Vodka	3
Pure alcohol	6
Pharmaceuticals	4
Benzin	4
Diesel	3.8
Kerosene	11
Propane	3.8
Pipeline gas	6.4
Electricity	
Rural areas	6 kopek per kwh
Urban areas	10 kopek per kwh
Water and sewage	5
Apartment heating	No change
Apartment rent	No change
Transportation (average)	4

Source: Kyrghyzstan authorities.



**Table 9. State Government Revenue and Financing**

*(In billions of rubles)*

	1987	1988	1989	1990	1991	1992 Revised Budget
<b>Total Revenue</b>	<b>2.38</b>	<b>2.60</b>	<b>2.89</b>	<b>3.21</b>	<b>5.43</b>	<b>11.97</b>
<b>Tax revenue</b>	<b>1.76</b>	<b>1.83</b>	<b>2.13</b>	<b>2.18</b>	<b>2.66</b>	<b>11.41</b>
Turnover tax <sup>1</sup>	(0.86)	(0.92)	(1.15)	(1.17)	(1.17)	(--)
VAT <sup>2</sup>	(--)	(--)	(--)	(--)	(0.30)	(5.13)
Excise taxes <sup>3</sup>	(--)	(--)	(--)	(--)	(--)	(3.26)
Enterprise profits taxes	(0.32)	(0.29)	(0.27)	(0.36)	(0.65)	(2.72)
Basic tax on profits	0.25	0.22	0.17	0.21	0.61	2.72
Other <sup>4</sup>	0.08	0.07	0.10	0.14	0.04	--
Profits tax on co-ops and collectives	(0.04)	(0.03)	(0.05)	(0.06)	(0.10)	(0.06)
Personal income taxes <sup>5</sup>	(0.26)	(0.28)	(0.32)	(0.20)	(0.38)	(0.22)
Social security contributions <sup>6</sup>	(0.26)	(0.29)	(0.31)	(0.36)	(--)	(--)
Other taxes <sup>7</sup>	(0.02)	(0.02)	(0.02)	(0.03)	(0.05)	(0.03)
<b>Nontax revenue</b>	<b>0.23</b>	<b>0.15</b>	<b>0.22</b>	<b>0.12</b>	<b>0.84</b>	<b>0.55</b>
Charges and fees	...	...	...	...	0.13	0.14
Road fees	...	...	...	...	0.13	0.21
Windfall on stock re-evaluation	--	--	--	--	0.21	0.10
Other	0.20	0.13	0.20	0.60	0.37	0.11
Union payments (net)	0.39	0.62	0.54	0.91	1.93	--
Union grants	(0.28)	(0.56)	(0.51)	(0.56)	(2.55)	(--)
Other payments (net) <sup>8</sup>	(...)	(...)	(0.03)	(0.35)	(-0.62)	(--)
<b>Financing of Expenditure</b>	<b>0.02</b>	<b>0.17</b>	<b>0.12</b>	<b>0.22</b>	<b>0.34</b>	<b>0.40</b>
Small-scale government borrowing	0.02	0.02	0.02	0.02	0.01	--
Leftover financing <sup>9</sup>	...	0.15	0.10	0.20	0.10	0.40
Loans from the Union	--	--	--	--	0.23	--
<i>Memorandum item:</i>						
Total funds (government accounts)	2.39	2.77	3.01	3.42	5.76	12.37

Sources: Kyrgyzstan Ministry of Finance, Office of the President; and IMF staff estimates.

<sup>1</sup>The turnover tax was abolished in 1992.

<sup>2</sup>The VAT was introduced January 1, 1992. A sales tax was instituted in 1991 and rescinded as of January 1, 1992.

<sup>3</sup>Excise taxes were introduced with the 1992 budget effective January 1, 1992.

<sup>4</sup>Eliminated in 1991 (bachelor's tax and others).

<sup>5</sup>The revenue from the personal income tax was split between the republic and the Union in 1990. In other years, the entire funds went to the republic.

<sup>6</sup>The social security tax prior to 1990 was collected by the republic and transferred to the trade unions that ran the pension funds. As of 1991, a separate pension fund was established that collects the contributions directly.

<sup>7</sup>Local taxes, cinema tax, and others.

<sup>8</sup>Includes a rub 200 million payment to the Union in 1991 that was classified in the budget as expenditure.

<sup>9</sup>This represents the surplus of funds from the previous year, e.g. revenues plus financing in excess of expenditure.



Table 10. Government Expenditure—Economic Classification

	1987	1988	1989	1990	1991	1992 Revised Budget
	(In billions of rubles)					
Total expenditure	2.23	2.51	2.73	3.18	4.73	17.05
Current expenditure	1.92	2.12	2.34	2.71	4.53	16.30
Wages and salaries	(0.43)	(0.46)	(0.48)	(0.53)	(1.11)	(3.18)
Other goods and services	(0.41)	(0.45)	(0.53)	(0.58)	(0.97)	(3.13)
Operations and maintenance	(0.19)	(0.21)	(0.24)	(0.26)	(0.43)	(1.40)
Interest on public debt	(--)	(--)	(--)	(--)	(--)	(2.20)
Of which:						
Interest on foreign debt	--	--	--	--	--	2.02
Interest on domestic debt	--	--	--	--	--	0.18
Transfers	(0.52)	(0.59)	(0.71)	(0.76)	(1.28)	(4.13)
Subsidies	(0.37)	(0.40)	(0.38)	(0.57)	(0.75)	(1.49)
CIS payments	(--)	(--)	(--)	(--)	(--)	(0.77)
Capital expenditure	0.31	0.39	0.39	0.48	0.19	0.75
Social/cultural	(0.07)	(0.09)	(0.11)	(0.11)	(0.05)	(...)
National economy	(0.24)	(0.30)	(0.28)	(0.36)	(0.15)	(...)
	(In percent of GDP)					
Total expenditure	35.97	36.41	35.97	38.34	31.10	
Current expenditure	30.93	30.69	30.79	32.61	29.83	
Wages and salaries	(6.94)	(6.73)	(6.27)	(6.43)	(7.27)	
Other goods and services	(6.65)	(6.56)	(7.00)	(6.96)	(6.36)	
Operations and maintenance	(3.03)	(3.09)	(3.12)	(3.12)	(2.85)	
Transfers	(8.31)	(8.48)	(9.37)	(9.20)	(8.41)	
Subsidies	(6.00)	(5.83)	(5.03)	(6.91)	(4.93)	
CIS payments	(--)	(--)	(--)	(--)	(--)	
Capital expenditure	5.04	5.71	5.18	5.73	1.27	
Social/cultural	(1.17)	(1.35)	(1.40)	(1.34)	(0.30)	
National Economy	(3.84)	(4.31)	(3.74)	(4.32)	(0.96)	
	(In billions of rubles)					
<i>Memorandum items:</i>						
Total expenditure per government accounts	2.23	2.51	2.80	3.21	4.93	14.86
Union payments <sup>1</sup>	0.08	0.10	0.07	0.03	0.20	--

Sources: Kyrgyzstan Ministry of Finance; and IMF staff estimates.

<sup>1</sup>These are payments by the republic to the Union that are recorded in Kyrgyzstan as expenditures. However, in the staff presentation, they are treated as an offset to receipts. In 1991, the republic paid rub 450 million to the Union, which was recorded as negative receipts in the government accounts.



Table 11. Government Expenditure—Functional Classification  
(In billions of rubles)

	1987	1988	1989	1990	1991	1992 Revised Budget
Total expenditure	2.32	2.61	2.80	3.21	4.93	17.05
General public services	0.17	0.19	0.20	0.23	0.87	1.61
Defense	--	--	--	--	--	0.67
Public order and safety	...	...	...	...	...	0.06
Education	0.60	0.67	0.66	0.72	1.19	4.54
Health	0.21	0.25	0.28	0.32	0.57	2.28
Social security and welfare	0.29	0.31	0.34	0.39	1.03	2.66
Housing and community services	0.12	0.13	0.15	0.16	0.15	0.03
Recreation and cultural services	...	...	...	...	...	...
Fuel and energy affairs and services	...	...	...	...	...	...
Agriculture, forestry, and fishing	0.35	0.41	0.42	0.56	0.35	1.33
Mining, manufacturing, and construction	0.04	0.06	0.09	0.09	0.13	0.10
Transportation and communication	0.10	0.10	0.08	0.07	0.12	0.33
Other	0.45	0.49	0.58	0.67	0.51	3.45

Source: Kyrghyzstan Ministry of Finance.



**Table 12. Commercial Bank Lending**  
(In millions of rubles)

	1987	1988	1989	1990	1991
Total bank lending	3,941.9	4,010.6	3,935.9	3,834.9	8,320.4
Short-term loans	3,394.5	3,243.2	3,134.6	2,820.0	6,866.1
Of which: Industry	(1,017.1)	(1,056.6)	(892.8)	(912.6)	(2,253.7)
Agriculture	(1,028.7)	(909.5)	(878.7)	(608.1)	(586.6)
Transport and communication	(12.3)	(4.0)	(2.1)	(8.5)	(44.1)
Construction	(119.9)	(97.1)	(63.3)	(237.7)	(372.9)
Other	(772.8)	(809.6)	(753.5)	(496.4)	(921.1)
Long-term loans	547.4	767.4	801.3	1,014.9	1,434.3
State enterprises and organizations	(86.0)	(267.6)	(171.8)	(328.3)	(522.0)
State farms	(89.6)	(--)	(106.9)	(118.7)	(168.6)
Enterprises and other economic organizations	(285.8)	(285.3)	(274.7)	(222.9)	(200.0)
Collective farms	(--)	(7.7)	(7.8)	(9.5)	(69.2)
Housing	(76.0)	(206.8)	(240.1)	(335.5)	(474.5)

Source: Kyrghyzstan authorities.



**Table 13. Commodity Composition of Trade  
with Former U.S.S.R. Republics**  
(In millions of rubles, domestic prices)

	Imports										Exports				
	1982	1987	1988	1989	1990	1991	1982	1987	1988	1989	1990	1991			
Industry	2,508	2,691	2,900	3,183	2,674	5,143	2,042	2,150	2,424	2,433	2,340	6,137			
Of which:															
Electric power	7	36	30	29	34	37	40	42	78	80	67	188			
Oil and gas industry	279	292	314	325	269	543	11	11	11	11	10	29			
Coal industry	17	42	31	32	3	85	23	20	22	22	22	14			
Other fuel	--	--	--	--	--	--	--	--	--	--	--	--			
Ferrous metallurgy	177	168	187	167	167	292	8	6	8	9	7	12			
Non-ferrous metallurgy	119	73	87	91	96	277	110	122	129	124	145	492			
Chemical and petrochemical industry	245	320	339	349	273	566	14	23	25	24	23	121			
Machine building and metal working	730	733	949	1,020	823	1,184	738	663	939	946	882	2,106			
Forestry, wood-working, paper and pulp	103	118	107	129	114	176	3	5	5	5	4	17			
Construction materials industry	55	58	65	67	69	81	17	19	13	17	13	67			
Light industry	448	524	471	560	522	1,238	635	654	651	650	640	1,898			
Food industry	254	287	264	344	198	436	434	570	521	519	508	1,142			
Other branches of industry	74	42	56	71	71	229	9	15	23	26	21	50			
Agriculture	70	69	65	88	87	181	71	114	108	96	87	182			
Other activity (in sphere of material production)	25	7	7	90	102	50	4	5	5	20	19	12			
<b>Total sphere of material production</b>	<b>2,603</b>	<b>2,767</b>	<b>2,972</b>	<b>3,361</b>	<b>2,863</b>	<b>5,373</b>	<b>2,117</b>	<b>2,269</b>	<b>2,537</b>	<b>2,549</b>	<b>2,446</b>	<b>6,331</b>			

Source: Kyrgyzstan Goskomstat.



Table 14. Commodity Composition of Trade Outside Former U.S.S.R.

(In millions of dollars, world prices)<sup>1</sup>

	Exports					Imports				
	1987	1988	1989	1990	1991	1987	1988	1989	1990	1991
Industry	54	74	65	85	13	774	806	883	1,178	350
Including:										
Electric power	--	--	--	--	--	--	--	--	--	--
Oil and gas industry	--	--	--	--	--	--	--	--	--	--
Coal industry	--	--	--	--	--	--	--	--	--	--
Other fuel	--	--	--	--	--	--	--	--	--	--
Ferrous metallurgy	--	--	3	1	--	18	16	10	7	3
Non-ferrous metallurgy	22	38	38	53	7	2	1	9	2	2
Chemical and petro-chemical industry	--	--	--	1	--	36	24	71	62	6
Machine building and metal working	26	28	13	21	5	38	54	87	131	111
Forestry, wood-working, paper and pulp	--	--	--	--	--	14	14	7	15	4
Construction materials industry	--	--	1	--	--	2	2	3	6	--
Light industry	1	5	3	3	--	104	111	133	152	23
Food industry	5	4	6	5	--	560	582	563	796	201
Other branches of industry	--	--	--	--	--	1	1	1	8	1
Agriculture	10	5	3	1	--	24	64	94	89	93
Other activity (in sphere of material production)	--	--	--	--	6	--	--	1	1	--
Total sphere of material production	64	79	67	86	20	798	870	978	1,268	443

Source: Kyrgyzstan Goskomstat estimates.

<sup>1</sup> 1987-90 estimates converted from rubles at official exchange rate; 1991 estimates converted at the commercial exchange rate. 1987-90 estimates converted from domestic price data using Goskomstat estimates of the ratio of world to domestic prices.



# Annex 1. Financial Services of the Government

The financial services of the Government are provided through the Ministry of Finance and the State Treasury. The Ministry of Finance is responsible for the overall financial policy of the Government, while the State Treasury is responsible for the day-to-day financial operations. The State Treasury also manages the Government's assets and liabilities, and is responsible for the collection and distribution of taxes and social security contributions.

## Annexes

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# **Annex 1. Fiscal Structure of the Government**

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The public sector of Kyrgyzstan is composed of the republican Government, six provincial governments or oblasts, the municipality of Bishkek, several extra-budgetary funds, and state enterprises. The coverage of the state budget is confined to the budgets of the republic, the six oblasts, and the municipality of Bishkek. The activities of the extra-budgetary funds and state enterprises enter the state budget only to the extent that these entities make payments to, or receive funding from, the republic or the oblasts. The relationship among the different levels of government is highly centralized. The republic has a great deal of influence over both revenue collection and expenditure policies of the local governments and the extra-budgetary funds. In contrast, the state enterprises enjoy a somewhat greater degree of financial autonomy vis-à-vis the Ministry of Finance.

## **State and Local Government Finances**

Prior to 1991, the three major levels of government were the Union, the republic, and the oblasts. With the dissolution of the Union and independence in August 1991, two levels of government remained. At present, Kyrgyzstan appears to be instituting a unitary system of government in which the autonomy of local governments is restricted. The relationship with the CIS will be limited to a few specified financial transactions involving support for the military, and other common activities of the CIS, and possibly receipt of revenues from foreign trade taxes.

The delineation of powers and responsibilities between the republic and the local governments appears to be well defined and stable. The republic is the primary revenue collector and provides the local governments with approximately three-fourth of their funds through direct transfers and revenue-sharing arrangements. The local governments have primary responsibility for providing education and health services to the public. The republic provides social security transfers, while economic and administrative expenditures are shared by the two levels (Table A1).

## **Revenue Sources**

In the combined state budget of 1991, tax revenues accounted for 49 percent of total revenues and grants, nontax revenues 15 percent, and net Union grants 36 percent. The most significant tax source was the turnover tax collected by the republic, accounting for 22 percent of state revenues and grants, of which two thirds was retained by the republic and one third paid to the local governments. Profit taxes accounted for 14 percent of state revenues and grants, of which 25 percent went to the republic and 75 percent to local governments. The sales tax accounted for 6 percent of state revenues and grants, of which nearly 80 percent went to the republic and 20 percent to local governments. In 1992, the turnover and sales taxes were repealed, and VAT and excise taxes introduced. The VAT is levied at a uniform 28 percent rate, and its coverage is fairly comprehensive, except for foreign trade transactions. Imports are not taxed, and exports are explicitly exempt. Among the 24 other items excluded from the VAT are transportation, housing, insurance, banking services, casinos, video games, horse racing, stamps and postcards, educational services, services for children, services for the elderly, magazines and newspapers, legal services, and ceremonial and religious services. The VAT uses a credit-based system, and the majority of wholesale and retail



business establishments are covered by the tax authorities; in total 7,000 companies are registered (compared with 8,000 under the Employment Fund). Total collections for 1992 were projected at rub 5.1 billion, equivalent to 5 percent of GDP, on the basis of the Price Committee's estimates of prices for each industry. Excise duties are collected on nine items (Table A2). In the revised 1992 budget, total excise and VAT revenue from these commodities, which are also subject to the VAT, is estimated at rub 4.7 billion, or 39 percent of total state revenues.

The profit tax was simplified, and its rate reduced from 45 percent to 35 percent for most enterprises in 1992. In addition, formerly Union-owned state enterprises are starting making payments to the republic and local governments as of 1992; payments to the Union by these enterprises were rub 650 million in 1991, equal to the entire collections from Kyrghyzstan-owned state enterprises. In the 1992 revised budget, the oblasts are scheduled to receive 37 percent of profits tax revenues of state enterprises, 25 percent of excise tax revenues, and 20 percent of VAT revenues. The primary local tax was the individual income tax (wage tax). Other taxes included the profit tax on cooperatives and collective farms, the land tax, and natural resource taxes.

Nontax revenues accounted for 15 percent of state revenues in 1991, while local charges and fees comprised 9 percent of local revenues only. Net Union grants accounted for 36 percent of state revenues, all of which went directly to the republic. Net payments by the republic to local governments amounted to 33 percent of the latter's receipts.

## Expenditures

A clear delineation of responsibilities between the republic and the local governments is apparent from the observed pattern of expenditures. As noted earlier, the local governments have primary responsibility for education and health, and the republic has primary responsibility for social security. Economic expenditures are split approximately evenly between the two.

Expenditures on state enterprises and the provision of economic services ("national economy") accounted for 33 percent of state expenditures in 1991, and was evenly split between the republic and local budgets. Education accounted for 23 percent of state expenditures, of which two thirds was local. Health expenditures accounted for 12 percent of state expenditures, of which 85 percent was local. In contrast, social security expenditures were made almost entirely at the republic level and accounted for 22 percent of total state expenditure. Expenditures on other categories—including science, mass media, culture, law enforcement, and administration—were evenly allocated between the two levels of government.

Kyrghyzstan assumed some former Union responsibilities in 1992; this involves an increase in revenue sources, government workers, and government expenditures. The wage bill was budgeted to increase by 186 percent because of a 35 percent expansion in employment resulting from the addition of locally based former Union civil servants. Consumer subsidies were budgeted to double from rub 0.75 billion in 1991 to rub 1.5 billion in 1992 (Table A3). For 1992, the subsidies on corn and bread increased from rub 150 million to rub 965 million, the coal subsidy from rub 35 million to rub 130 million, the transportation subsidy from rub 12 million to rub 94 million, and the housing maintenance subsidy from rub 30 million to rub 110 million. However, subsidies on meat and raw materials for light industries were eliminated while the subsidy on milk was increased from rub 150 million to rub 195 million only.



## Annex 2. Structure of the Banking System

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The banking system in Kyrgyzstan consists of eleven banks, including the National Bank of Kyrgyzstan (NBK), the Savings Bank, the former state banks that were converted into joint-stock commercial banks—Agroprombank, Promstroibank, Zhilsotsbank named Kyrgyzstan Bank after becoming a commercial bank—and six newly established commercial banks that have a very small share of the market. All banks claim to be “universal,” but in practice the market is segmented along the sectoral lines defined by the areas of specialization of the former state banks (agriculture, industry and construction, etc.). The former specialized banks account for about 95 percent of the credit market and hold about 90 percent of the deposits of enterprises and public organizations. These banks depend heavily on NBK refinance credit for their operations.

The *Savings Bank* mobilizes virtually all household deposits, which are guaranteed by the state, and extends long-term credit to households and small businesses, and short-term credit to other banks, at rates of 2–3 percent a year. About 75 percent of total credit is directed to households. A large share of Savings Bank deposits must be placed at the NBK, which pays 9 percent for these funds; this rate is determined by the Government and was raised this year from 8 percent prevailing in 1991.

The *NBK*, formerly Kyrgyzstan's branch of the former U.S.S.R. Gosbank, started to operate independently only on December 1991 and, therefore, is not yet in a position to perform all the essential functions of a full-fledged central bank. Under Kyrgyzstan's central bank and banking laws approved in June 1991, the NBK is accountable to the Parliament, and is responsible for monetary and credit policies, banking supervision, licensing, foreign exchange operations, and the payments system; the NBK is also the fiscal agent of the Government. The management of foreign exchange reserves is carried out by the Government, which also holds Kyrgyzstan's gold reserves. As part of the ruble area, the republic obtains its currency from the Central Bank of Russia.

All banks previously licensed by the former U.S.S.R. Gosbank were required to re-register at the NBK by January 1, 1992. Four new banks have been granted licenses since December 1991, with some applications rejected on technical grounds; the NBK has also granted foreign currency licenses to three commercial banks. Banking supervision is limited to off-site reviews of banks' monthly returns and the computation of prudential ratios according to the norms previously established by the former U.S.S.R. Gosbank.

The NBK currently uses two instruments for monetary control: reserve requirements, and its refinance facilities to commercial banks and to the Government. Reserve requirements depend on the maturity of deposits: the reserve/deposit ratio is 15 percent for demand deposits and 13 percent for deposits under 3 years; longer-term deposits are not subject to the requirement. Required reserves are currently not remunerated. Under the NBK law, a limit on its credit to the Government is established every year by Parliament and included in the annual budget. Credit to the Government was traditionally granted at an interest rate of zero without any repayment being expected; however, as of 1992, an interest rate of 6 percent will be charged on credit to the Government. Refinancing of commercial banks is used not only for monetary control, but also for selective credit purposes. Priority areas include agricultural development, construction, new technology, and consumption goods. Refinance credits are given for a period from three months to one year. The refinance rate was raised from 8 percent to 12 percent in mid-1991.

With the exception of the Savings Bank, all banks keep one consolidated correspondent account at the NBK for clearing and settlement. The Savings Bank has also been requested to open a



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The *NBK*, formerly Kyrgyzstan's branch of the former U.S.S.R. Gosbank, started to operate independently only on December 1991 and, therefore, is not yet in a position to perform all the essential functions of a full-fledged central bank. Under Kyrgyzstan's central bank and banking laws approved in June 1991, the NBK is accountable to the Parliament, and is responsible for monetary and credit policies, banking supervision, licensing, foreign exchange operations, and the payments system; the NBK is also the fiscal agent of the Government. The management of foreign exchange reserves is carried out by the Government, which also holds Kyrgyzstan's gold reserves. As part of the ruble area, the republic obtains its currency from the Central Bank of Russia.

All banks previously licensed by the former U.S.S.R. Gosbank were required to re-register at the NBK by January 1, 1992. Four new banks have been granted licenses since December 1991, with some applications rejected on technical grounds; the NBK has also granted foreign currency licenses to three commercial banks. Banking supervision is limited to off-site reviews of banks' monthly returns and the computation of prudential ratios according to the norms previously established by the former U.S.S.R. Gosbank.

The NBK currently uses two instruments for monetary control: reserve requirements, and its refinance facilities to commercial banks and to the Government. Reserve requirements depend on the maturity of deposits: the reserve/deposit ratio is 15 percent for demand deposits and 13 percent for deposits under 3 years; longer-term deposits are not subject to the requirement. Required reserves are currently not remunerated. Under the NBK law, a limit on its credit to the Government is established every year by Parliament and included in the annual budget. Credit to the Government was traditionally granted at an interest rate of zero without any repayment being expected; however, as of 1992, an interest rate of 6 percent will be charged on credit to the Government. Refinancing of commercial banks is used not only for monetary control, but also for selective credit purposes. Priority areas include agricultural development, construction, new technology, and consumption goods. Refinance credits are given for a period from three months to one year. The refinance rate was raised from 8 percent to 12 percent in mid-1991.

With the exception of the Savings Bank, all banks keep one consolidated correspondent account at the NBK for clearing and settlement. The Savings Bank has also been requested to open a



correspondent account at the NBK, but that will be done only after the revision of the Savings Bank's plan of accounts. Since December 1991, interbank settlements are handled by the NBK. If banks do not have sufficient funds in their accounts for settlement purposes, the NBK extends them credits of up to three days at a rate of 0.1 percent a day; the NBK has had to cover banks quite often.

In principle, all banks are free to set their deposit and lending rates, as long as the margin between their average cost of funds and their lending rates does not exceed 3 percentage points. This limitation on bank margins was recommended by the former U.S.S.R. Gosbank in July 1991. Before that, lending rates ranged from 0.5 percent to 3 percent. If this limit is exceeded, the proceeds of the difference are transferred to the state budget. Currently, lending rates range between 0.5 percent (preferential rates) to 30 percent, and deposit rates range between 3 percent and 8 percent (for enterprises' deposits).



## Annex 3. The Pension Fund and the Employment Fund

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Extra-budgetary funds are a relatively recent phenomenon in Kyrgyzstan, since they did not exist at the republican level prior to 1990. The Pension Fund and the Employment Fund were established in 1990 and began operations in 1991. Previously, Kyrgyzstan collected a social security (payroll) tax and transferred the entire amount to the Union Pension Fund. As of January 1991, the Kyrgyzstan Pension Fund began collecting the social security tax directly. It is financed by (1) a 37 percent fee on the wage bill of enterprises, and by a 26 percent fee on the wage bill of collectives and state farms; (2) a 1 percent fee on wages; and (3) grants from the republican budget earmarked for children 1.5 to 6 years of age. At present, 13 percent of the 37 percent fee collected on the wage bill is transferred to the trade unions for social insurance; the Ministry of Labor and Social Affairs hopes to establish an independent social insurance scheme under its direction.

### Pension Fund

The Pension Fund supports about 600,000 pensioners; most are retired workers, and the rest are social pensioners (Table A4). Of the former, about 100,000 are dependents of deceased breadwinners, and 12,000 are invalids from the Second World War. The normal retirement age is 60 years for men and 55 years for women, or 45 and 40 years of service, respectively.

The minimum monthly pension was raised from rub 135 in 1991 to rub 350 in 1992, equivalent to the minimum wage. Pensions to nonworkers are granted at a rate of 50 percent of the minimum pension provided to workers. Pensions are augmented by allowances calculated on the basis of the cost of a minimal consumption basket. Between July 1991 (the start of the implementation of the law on pensions) and December 1991, the cost of the minimal consumption basket increased by 55.6 percent. Monthly increases were 5.6 percent in September, 13.4 percent in October, 16.7 percent in November, and 11.9 percent in December. However, allowances were adjusted with a lag and amounted to rub 50 per month during the latter part of 1991 (in addition to a basic pension of rub 135).

The Pension Fund administers a cash transfer program for children; the state paid half the cost of this program in 1991 and is to pay its entire costs in 1992 (Table A5). (The social security program also includes payments to mothers with children, monthly transfers to families with children under the age of 6 years, and clothing allowances for children under six years old, all of which are part of the budget.) Transfer payments from the state to the Pension Fund accounted for 6 percent of the fund's revenues in 1991, and for 25 percent of budgeted revenues in 1992. Total Pension Fund expenditures were rub 2.6 billion in 1991, equivalent to 55 percent of state government expenditures (excluding the extrabudgetary funds) and 17 percent of GDP, and were budgeted at rub 4.7 billion in 1992, equivalent to 28 percent of state government expenditures and 4 percent of GDP. For 1992, the Pension Fund allocates 48 percent of its expenditures to old age, disability, and survivor insurance. Payments to children under the age of 6 years represent 39 percent of total expenditure, and other payments go to special programs, including 1 percent for military pensions.



## Employment Fund

The Employment Fund started operations in May 1991 as a mechanism to regulate employment and training. The fund is financed by a 1 percent fee on the wage bill of enterprises, voluntary donations, subsidies from the republican and local budgets, and revenues from its small business activities. Payroll taxes paid by employers provide about 90 percent of the fund's revenues, and most of the remainder is budgetary transfers from the state. The fund collected rub 20 million by the end of 1991, and expenditures were expected at rub 500 million in 1992. Expenditures are allocated to unemployment compensation (51 percent), training and retraining (40 percent), public work projects (5 percent), and administration of centers (5 percent).

Unemployment cash benefits are a function of past wages and are limited to a maximum of 6 months. An exception is made for labor unemployed close to retirement age, for whom unemployment grants are limited to nine months. The conditions for obtaining unemployment compensation are strict: a recipient should not have a job, be willing to work, cannot refuse more than two job offers, and must be registered at an employment center. Benefits range between one half of the minimum wage and the average wage; in 1991, the average monthly wage in Kyrghyzstan was rub 275. In total, 34,000 persons applied for unemployment compensation in 1991. However, only 300 qualified for cash benefits, and 20,000 workers found employment. It is expected that 186,000 persons will receive unemployment compensation or training in 1992, but the number of people seeking assistance depends on the pace of privatization and passage of the proposed bankruptcy law, among other things. Unemployment is likely to be concentrated in rural areas, especially in winter, as employment possibilities are limited, and mobility to urban areas is constrained by a shortage of housing and by registration requirements. Moreover, government employment is likely to decline in 1992, partly as a result of the ongoing rationalization of government agencies and ministries.



## Annex 4. The Privatization Program

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The privatization of state property and enterprises began in 1991 with agricultural land and small businesses. The Government intends to transfer to the private sector rub 8 billion of capital, equivalent to 35–40 percent of the state's fixed assets, by the end of 1992 (Table A6). Small and medium-size businesses, valued at rub 125 million, are to be privatized through auctions or other means of competitive bidding; shares of larger enterprises, valued at rub 5.4 billion, will be publicly traded; some government property is to be leased to the private sector; and holding companies and other forms of commercial enterprises will be created. The value of the leased capital and the capital of the holding companies to be established is estimated at rub 2.5 billion. The Government projects that 400,000–410,000 employees will work for the newly privatized companies, and that 250,000–280,000 private citizens will become shareholders of these companies in 1992. Companies producing items considered to be in the Government's monopoly would not be privatized; these include alcoholic beverages, sugar, and tobacco factories.

Besides the provision of interest-free loans through the National Enterprise Fund noted earlier, the privatization program will be financed by special onetime lump-sum accounts allocated to each citizen. Each citizen will receive rub 1,000 plus one half of the monthly salary over any 5 consecutive years during the past 15 years times the number of years in employment. Specific amounts were also established for all other citizens, including the unemployed, pensioners, and children. The accounts can be used for the purchases of homes, shares in private enterprises, or private businesses through the end of 1999; property acquired through the accounts cannot be sold for a three-year period. The special accounts are to be the main instrument for the privatization of housing, with the prices of houses built prior to 1991 to be based on 1984 levels. In addition, a wide variety of privileges allow some citizens to acquire dwellings free of charge. Up to 30 percent of the housing stock is allocated for disadvantaged citizens. In addition to the bulk of the housing stock, the Government will reserve in excess of 25 percent of enterprise capital for purchase through the special accounts. Credit at favorable terms would also be extended to individuals authorized to purchase shares of private companies or businesses.

The Government has established a structure for the distribution of ownership in each industry. In general, 30 percent of shares are to be reserved for sale to employees, with the remainder to suppliers, the Government, and the public. The largest portion of shares would be owned by the Government. Employees of government-owned companies are allowed to purchase up to 20 percent of shares at 70 percent of the market value.

The ownership of land, as well as that of mineral and other natural resources, is restricted to the Government. Personal plots have been permitted, on which the owner could grow crops for personal consumption only. Privatized land can be inherited but cannot be sold. However, a new law establishing selling rights is under preparation. The privatization of land is to be carried out in the territory of each collective farm (*kolkhoz*) by the local government. Local governments are to distribute land and equipment according to the ability of each person (or a group of individuals). An *ex-kolkhoz* member planning to leave the village, for example, would not receive any property or equipment. The size of individual parcels is limited to 50,000–200,000 hectares in mountainous regions and 2,000–5,000 hectares in valleys.

The Government considers foreign investment of vital importance to the economy. Purchases of small enterprises by foreigners are allowed on the open market; however, foreign participation in auctions or other forms of competitive bidding would require special government permission.



Table A1. State Government Finances

(In millions of rubles)

	1990			1991			1992		
	State Finances		Local Gov't	State Finances		Local Gov't	State Finances		Local Gov't
	Republic Finances		Gov't	Finances		Finances	Republic Finances		
Total revenue and grants	3,205	2,189	1,017	5,425	2,863	2,565	11,967	6,586	5,381
Tax revenues	2,185	1,271	914	2,660	1,187	1,476	11,413	8,275	3,138
Turnover tax	1,172	742	430	1,168	759	410	--	--	--
Sales tax	--	--	--	305	239	67	--	--	--
VAT	--	--	--	--	--	--	5,129	4,091	1,037
Excise duties	--	--	--	--	--	--	3,256	2,468	789
Profit tax on state enterprises	358	134	224	655	189	467	2,718	1,716	1,002
Profit tax on co-ops and collectives	63	--	63	101	--	101	62	--	62
Income tax	196	32	164	383	--	383	219	--	219
Social security contributions <sup>1</sup>	364	364	--	--	--	--	--	--	--
Land and natural resource taxes	33	--	33	48	--	48	29	--	29
Nontax revenues	115	89	26	837	606	231	554	415	138
Local fees and revenues	26	--	26	130	--	130	138	--	138
Highway and automobile fees	...	...	--	133	128	5	206	206	--
Re-evaluation of goods	--	--	--	214	213	1	100	100	--
Privatization revenues	...	...	--	10	9	1	91	91	--
Other	89	89	--	350	256	94	18	18	--



	1990			1991			1992		
	Revised Budget								
	State Finances	Republic Finances	Local Gov't	State Finances	Republic Finances	Local Gov't	State Finances	Republic Finances	Local Gov't
Intergovernmental transfers	905	828	77	1,928	1,070	858	--	-2,104	2,104
Union grants (net)	905	905	--	1,928	1,928	--	--	--	--
Local transfers to the republic	--	...	...	--	554	-554	--	1,100	-1,100
Republic transfers to local governments	--	-77	77	--	-1,412	1,412	--	-3,204	3,204
Total expenditures	3,184	2,186	998	4,727	2,506	2,222	17,053	11,162	5,891
National economy	1,553	1,375	178	1,573	780	793	3,276	3,005	271
Social/cultural									
Expenditure	1,416	668	748	2,782	1,502	1,280	9,539	4,172	5,367
Education	(604)	(155)	(449)	(1,096)	(363)	(733)	(4,231)	(985)	(3,246)
Health	(318)	(52)	(266)	(565)	(82)	(483)	(2,283)	(374)	(1,909)
Culture and mass media	(79)	(55)	(24)	(96)	(49)	(47)	(328)	(195)	(133)
Social security	(416)	(407)	(9)	(1,025)	(1,008)	(17)	(2,697)	(2,618)	(79)
Science	33	33	--	19	19	1	138	136	2
Law enforcement	...	--	--	68	40	28	616	530	86
Other	182	110	72	285	165	120	515	350	165
CIS contributions	--	--	--	--	--	--	773	773	--
Interest obligations	--	--	--	--	--	--	2,196	2,196	--
Overall balance	21	2	19	698	357	343	-5,086	-4,576	-510
Financing	217	132	85	433	339	94	400	400	--
Bond sales to the public	20	20	--	13	13	--	--	--	--
Leftover financing	197	112	85	191	97	94	400	400	--
Loans from the Union	--	--	--	229	229	--	--	--	--

Source: Kyrgyzstan Ministry of Finance.

<sup>1</sup>Collections were taken off-budget in 1991.



Table A2. Projected Excise Collections and Value-Added  
Tax on Excisable Goods, 1992

(In millions of rubles)

	Tax Rate (In percent)	Revised Budget Projected Revenues	
		Excise	VAT
Total		3,256.4	1,433.4
Wine	50	375.4	171.0
Vodka	70	1,925.6	671.8
Brandy	65	192.4	56.1
Champagne	50	137.0	58.1
Beer	60	100.9	22.9
Cigarettes	25	125.5	90.5
Carpets	10	134.1	295.2
Fur Goods	25	7.6	3.4
Tobacco	10	258.0	64.4

Source: Kyrghyzstan Ministry of Finance.

Table A3. Budgetary Subsidies

(In millions of rubles)

	1987	1988	1989	1990	1991	1992 Revised Budget
Total subsidies	372.3	402.5	382.1	573.5	749.5	1,491.9
Meat	251.5	238.4	239.7	226.9	302.5	--
Milk	101.4	141.2	134.2	147.1	147.6	194.1
Bread, corn, and other Preserves (fruits and vegetables)	--	--	--	107.0	150.0	963.7
Fish	8.1	8.2	0.3	8.0	--	--
Fish	--	--	--	7.7	6.8	--
Coal	5.8	6.5	--	12.2	35.5	130.1
Transportation and other	--	--	--	--	11.5	94.0
Housing maintenance	5.5	8.2	7.9	20.0	30.0	110.0
Light industry raw materials	--	--	--	--	65.6	--

Source: Kyrghyzstan Ministry of Finance.