

The Kyrgyz Republic Recent Economic Developments: January -September 2003

Summary

Key macroeconomic indicators of the Kyrgyz Republic remained stable during the first nine months of 2003. The economy grew by 5.1 percent over the same period last year. Kumtor gold production and gold exports recovered from the 2002-landslide by the 3rd quarter of this year, contributing 1.4 percent to the GDP growth. Inflation remained at low level, with consumer prices increasing only by 2.4 percent on average. Real effective exchange rate depreciated in 3rd quarter of this year after significant appreciation in the 1st half of the year. External current account deteriorated, mainly reflecting increase in imports (by 21 percent), which is largely driven by the exchange rate appreciation. Non-gold exports declined. The general budget deficit slightly declined to 3.5 percent of the GDP, remaining somewhat above the PRGF program target. In an effort to keep the deficit level within the program targets, the government, besides strengthening the revenue collection, curtailed spending including in key sectors such as health, agriculture and transport. Further spending cuts are expected in the 4th quarter to keep the fiscal program indicators on track.

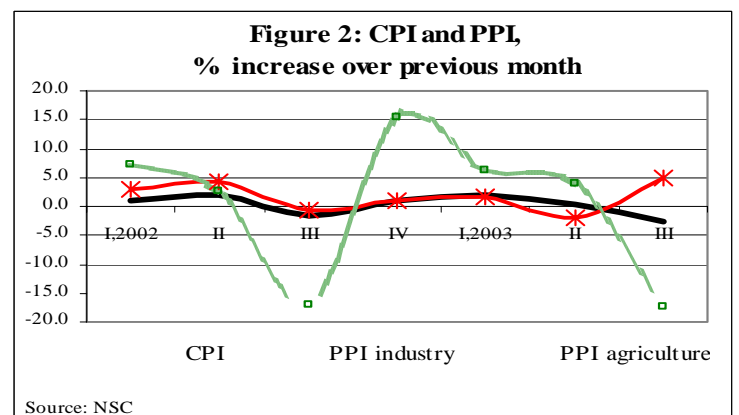
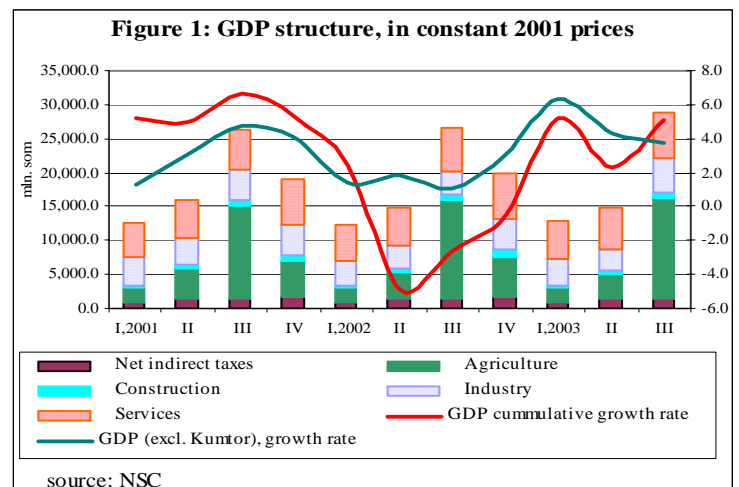
1. Growth

- **The real GDP** grew by 5.1 percent in the first nine months of 2003 over the same period of last year. Industry (2.5 percent) and services (1.9 percent) were the leading sectors. Non-gold real GDP grew by 3.7 percent, recovering from its low level in 2002.
- **Non-gold Industrial output** increased by 9 percent mainly due to strong growth of food, clothing, chemical and construction material production. On the other hand, production of textile industry is on the decline this year.
- Value added of **construction** increased slightly by 0.5 percent. The growth of construction in power sector, irrigation and housing compensated for the large decline (by 52 percent) in construction of Bishkek-Osh road--the main road construction activity, which is gradually being completed.
- **Agricultural production** remained stagnant reflecting unfavorable weather in Spring of this year. Production of grain, cotton and fruits declined and production of tobacco, potatoes and vegetables increased. All in all, sector's contribution to growth has been marginal at 0.2 percent.

Table 1: Growth rates of the GDP and Value Added of Sectors

	2001	2002	9 m. 2002	9 m. 2003
GDP	5.3	-0.5	-2.6	5.1
GDP excl. Kumtor-gold	4.1	3.1	1.1	3.7
Agriculture	7.3	3.3	0.7	0.6
Construction	4.0	-0.1	-4.8	0.5
Industry	4.8	-11.3	-20.3	14.0
Services	3.3	4.2	6.7	5.9

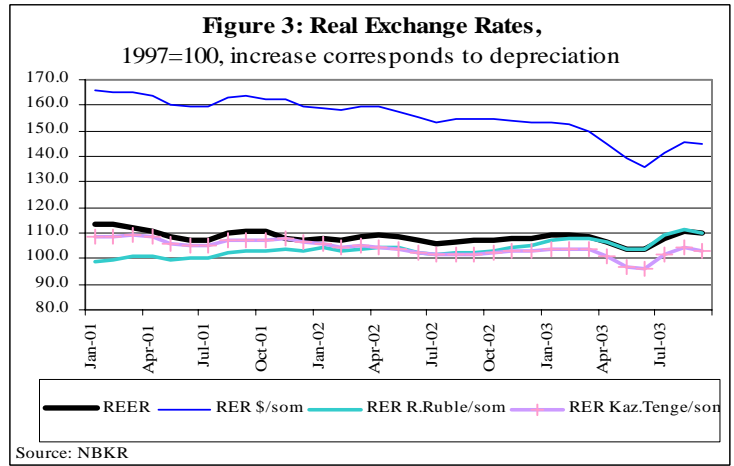
Source: NSC



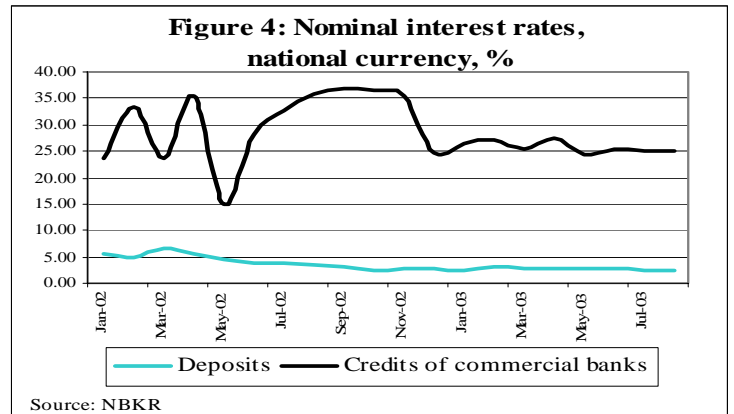
- **Services** depicted strong growth pattern and continue to be led by trade, public catering, hotels and other individual services.

2. Inflation, exchange rate and interest rates

- The **consumer prices** increased by 2.4 percent in the first nine months of this year over the same period of last year, reflecting increase in prices of food products by 2.3 percent and in prices of individual services by 6 percent. Among the main food products, prices increased for meat, fruits and vegetables—particularly the prices on meat increased by 16 percent, reflecting the transmission of increase in demand on livestock in Kazakhstan to meat prices. Despite significant decline in prices on vegetables compared to last year (by 26 percent) due to increase in vegetables production, average price on vegetables was higher than last year.



- Real effective **exchange rate** appreciated in the 1st half of this year, which followed by depreciation in July, with the latter bringing it back to its level at the beginning of the year. Vis-à-vis the key trade partners, real exchange rate of som depreciated by 3 percent against Russian Ruble and returned to its level at the beginning of the year against Kazakh Tenge.

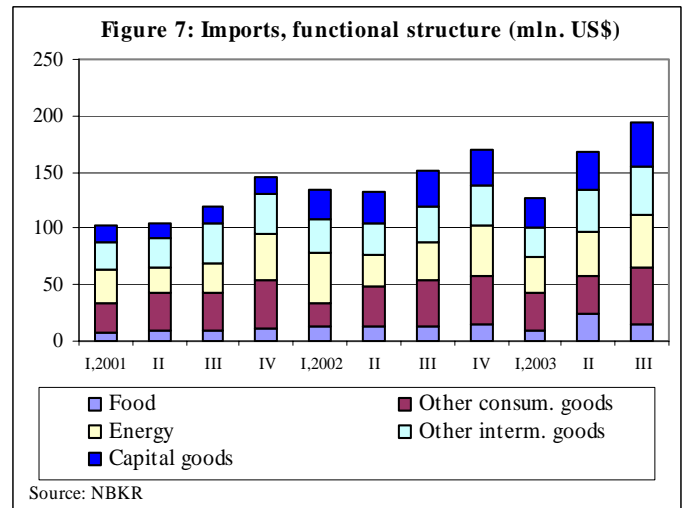
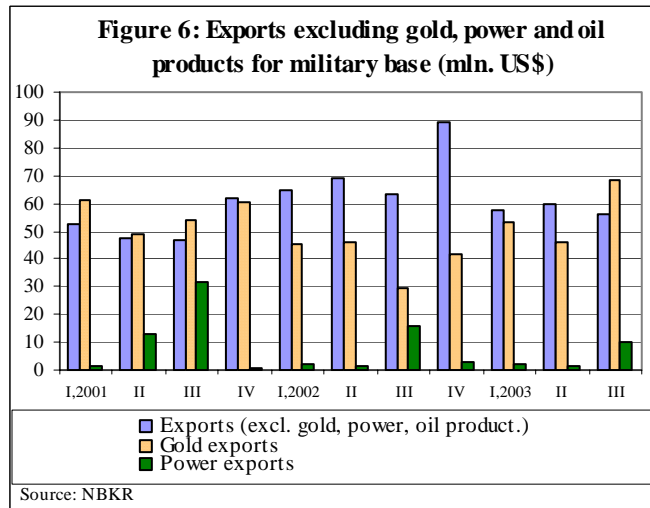


- **Interest rates** on commercial bank credits and deposits remained stable in January-September of this year.

3. External Sector

- **Current account deficit** increased to 1.4 percent of the GDP in the first nine months of 2003 compared to 0.5 percent in the same period of last year mainly reflecting significant increase in imports.

- Overall, **export** performance remained weak during the first nine months of the year, with exports increasing slightly over last year's level reflecting mainly gold price increase along with recovery of gold production/exports. Power exports declined for the second year in a row due to rainy Spring, causing reduction in irrigation-water demand by Uzbekistan and Kazakhstan. Exports other than gold, power and oil for military base declined by 12 percent, with leather, chemical products, cotton and tobacco exports declining most significantly. The only notable positive trend was registered by the growing exports of construction material, electric bulbs and clothing. **Imports** increased by 21 percent lead by imports of consumer goods.



4. General Government budget

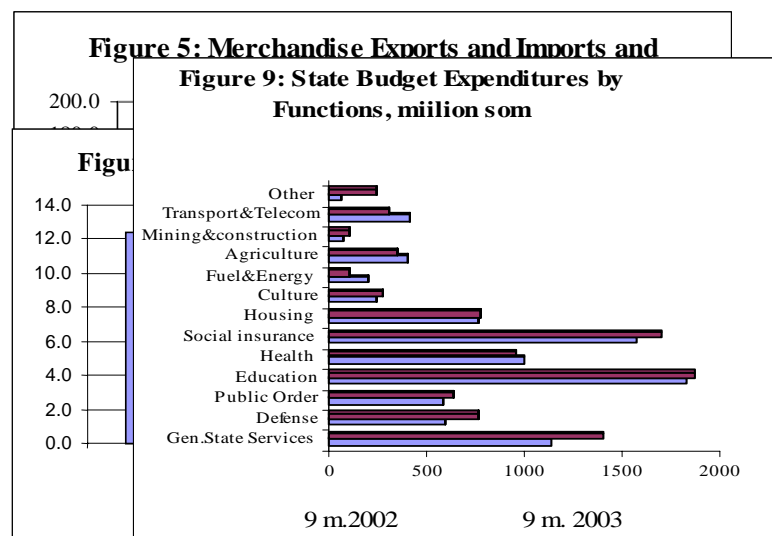
- Overall, Government **revenues** increased by 0.6 percent of the GDP and reached 16.5 percent. Tax revenue collection exceeded previous year's level by 13 percent reflecting increase in collection of almost all important taxes (excluding profit tax and custom duties). Collection of taxes on small business increased significantly, although total collections remain rather marginal. Non-tax revenue increased by 29 percent in nominal terms mainly reflecting increase in transfers from the National Bank to the state budget in lieu of its profits, and in special means revenues collected by government agencies for their services.

Table 2: Current Account Balance (million US\$)

	2001	2002 9m	2002 9m	2003
CAB (% GDP)	-1.2	-2.2	-0.5	-1.4
CAB (million US\$)	-18.9	-34.6	-8.4	-24.7
Merchandise Exports	480.3	498.1	366.8	379.0
Gold exports	226.7	162.8	137.0	168.0
Merchandise Imports (fob)	440.4	552.1	376.3	455.5
Exports of services	80.3	138.4	89.6	111.1
Imports of services	124.7	145.5	92.1	111.8
Net income	65.5	59.7	-42.0	-31.4
interest payments (scheduled)	39.4	32.3	-25.8	-19.1
Current Transfers	51.1	86.1	45.6	48.6

Source: NBKR

- While the total government **expenditures** remained at 20 percent of the GDP in the first nine-months of this year, as in the previous year,



the structure of expenditures has changed. Expenditures on wages and pensions as well as on interest payments (mostly on domestic debt) increased significantly, whereas other types of expenditures were curtailed, with capital expenditures registering the most significant decline. Foreign-financed PIP (capital expenditures) shrank from 4.2 to 3.6 percent of the GDP, due both to planned cuts and low rate of its project implementation (annual plan execution was at 61 percent as of September 31, 2003). Trying to keep the deficit at the target level under IMF program, the government curtailed financing many economic items, such as business trips, utilities, medicaments, subsidies to state enterprises and some other items. But, lack of thorough expenditure strategy finally led to unsustainable reduction of financing for such important sectors, as health, agriculture and transport.

- Performance of the Social Fund improved. Pension Fund managed to finance pensions timely and begin repaying arrears to the Health Insurance Fund.

5. Legislative changes with economic impact in 3rd quarter of 2003

The most important legislative acts issued in third quarter 2003 are as follows:

1. The Law on state procurement of agricultural production to support agricultural producers (June 30, 2003). The law establishes general legal and economic principles for state procurement.
2. The Law on ratification of the Agreement on Joint Agrarian Market of CIS countries (July, 2003). The Agreement aims at facilitating Kyrgyz agriculture, processing industry and agricultural exports.
3. The Law on Occupational Safety (June 2003). The law establishes basis of legal regulation of relationships in area of occupational safety between employees and employers.
4. The Law on ratification of the Agreement on transit rules through territories of CIS countries (August 2003). The Agreement was issued and was signed by majority of CIS governments in June 1999.
5. The Law on ratification of Inter-governmental agreement on establishment of information and marketing network for promotion goods and services on national markets of CIS countries (August 2003).
6. The Law on Single Payer System in Health Financing (July 2003). Establishes legal, organizational and financial basis for the Single Payer System for the whole health care system.
7. The Decree of the President on establishment of the Development and Investment Agency (October 2003). The Agency will be the main player in attraction of investments at the level of local self-governments.
8. The Decree of the Government on changes of excises on tobacco products (September 2003). The decree is effective from December 1, 2003 and aims at removal the discrimination against foreign producers of tobacco products through imposing a graduated scale of specific rates, reflecting quality and price.

Kyrgyz Republic: Key macroeconomic indicators

	2000	2001	2002	2003	2002	2002	2002	2002	2003	2003	2003
				Proj.	I	II	III	IV	I	II	III
<u>GDP and prices</u>											
GDP real growth (%)	5.4	5.3	-0.5	5.3	-2.4	6.5	0.3	4.8	5.2	-0.1	7.9
GDP, USD million	1,370	1,525	1,603	1,792	265	319	597	431	304	360	699
Inflation (% beginning-to-end of period, CPI)	9.6	3.7	2.3	4.0	1.1	2.0	-1.7	1.0	2.0	0.5	-2.5
Deflator GDP (%)	27.2	7.3	2.3	4.0	3.6	3.3	4.6	-2.1	4.9	2.2	0.7
Wage, average for KR (US\$ per month)		29	36	...	30	33	35	40	37	44	46
Pension, average for KR (US\$ per month)		12	12	15	12	12	13	13	14	15	16
Exchange rate (som/\$, avg of period)	48	48	47	46	48	48	46	46	46	43	43
REER (end of period, 1997=100, up=depreciation)	114	107	108	108	108	107	107	108	108	104	110
RER of som/US\$ (end of period, 1997=100, up=depreciation)	167	159	154	154	159	155	155	154	150	136	145
M2 (e.o.p as percent of GDP)	11.3	11.1	14.6	15.3	11.6	11.7	13.1	14.6	13.9	14.4	15.6
<u>External Sector</u>											
Current account balance (% GDP)	-5.6	-1.2	-2.2	-2.3	-0.3	-0.1	-0.2	-1.5	0.6	-3.3	-1.4
Exports (mln US\$, f.o.b.)	511	480	498	552.8	117	125	117	140	121	115	142
- Power	80	47	22	30.8	2	1	16	3	2	2	10
- Gold	197	227	163	211.1	45	46	30	42	54	46	68
- Other	234	207	313	310.9	69	78	71	95	66	67	64
Imports (mln US\$, c.i.f.)	559	472	587	620.1	135	132	151	170	126	169	181
- Food	61	36	53.2	48.5	13	13	13	14	10	25	14
- Other consumer goods	149	137	141	158.5	21	36	41	43	34	33	51
- Energy	129	121	152	157.6	45	27	35	45	31	40	47
- Other intermediate goods	113	121	125	134.9	29	29	31	36	25	38	42
- Capital goods	107	58	116	120.6	26	26	32	31	26	33	39
External Debt (mln US\$)	1712	1678	1776	1,784.0	1665	1705	1738	1776	1804	1840	1874
Public External Debt (mln US\$)	1403	1436	1576	1,665.7	1429	1498	1524	1576	1602	1640	1674
External Debt (% GDP)	125.0	110.0	110.8	99.6	103.9	106.3	108.4	110.8	100.6	102.7	104.6
Total debt service to exports of GS (%)	28.1	30.8	20.7	25.4	10.0	39.0	9.7	23.4	13.8	24.2	9.1
Public debt service to state revenues&grants (%)	37.4	27.7	22.6	15.8	11.7	50.8	9.8	19.3	18.3	18.5	8.7
FDI (mln \$) ¹	-2	5	5	3.8	5	-12	9	3	4	2	10
<u>General Government Budget (percent of GDP)²</u>											
Revenues and grants	18.5	20.4	22.8	22.6	4.6	5.2	6.1	6.8	4.4	6.0	6.1
Grants	0.9	0.8	1.1	0.8	0.3	0.0	0.3	0.4	0.0	0.1	0.4
Tax	12.3	12.4	13.9	14.6	3.6	4.1	4.8	5.1	3.6	4.3	4.8
Social fund contributions	3.3	3.3	3.6	3.4	0.8	0.8	1.0	1.0	0.9	0.9	0.9
Nontax and capital	1.9	3.8	4.2	3.8	0.7	1.1	1.0	1.3	0.8	1.6	0.9
Expenditures	28.1	26.2	28.0	27.3	5.8	6.9	7.1	8.5	5.7	7.3	7.1
Current (other than interest)	18.6	20.5	20.7	20.6	4.7	5.8	5.5	6.8	5.0	6.1	5.5
o.w. transfers & subsidies	7.5	8.2	9.4	8.4	2.1	2.2	2.2	2.6	1.7	2.2	2.0
wages & salaries	4.4	4.9	5.4	5.4	0.7	1.4	1.3	1.7	1.0	1.2	1.5
Interest payments	2.2	1.7	1.9	2.1	0.2	0.7	0.2	0.8	0.3	0.7	0.3
Capital	7.8	5.3	6.0	5.5	1.1	1.3	1.6	2.0	0.9	0.6	1.5
of/which foreign financed PIP	6.5	4.4	4.8	4.4	0.9	1.1	1.2	1.5	0.8	0.4	1.1
Net lending	-0.5	-1.1	-0.6	-1.0	-0.1	-0.2	-0.1	-0.2	-0.1	-0.1	-0.1
Fiscal Balance (accrual)	-9.6	-5.8	-5.2	-4.6	-1.2	-1.6	-1.0	-1.6	-1.3	-1.3	-1.0
Memo:											
Primary Deficit (w/o interest and PIP)	-0.9	0.2	1.4	1.9	-0.1	0.2	0.5	0.6	-0.3	-0.2	0.4
Primary Deficit (w/o interest)	-7.4	-4.2	-3.3	-2.5	-1.0	-1.0	-0.8	-0.8	-1.0	-0.6	-0.7

Source: Ministry of Finance, National Statistical Committee, Social Fund, National Bank and World Bank staff calculations.

¹ Includes repayment of FDI related debt

² The state budget consolidates central and local budgets and includes the foreign-financed public investment program and the deficit of the social fund, which became an extrabudgetary Fund in 1991. The quarterly data are on cash basis and based on the Treasury reports