

The Kyrgyz Republic
Recent Economic Developments: January-September 2004

Summary

The Kyrgyz macroeconomic development has been strong in January-September of 2004. The real GDP grew by 7.0 percent in January-September of this year over the same period of last year. The growth was broadly based on contribution of all sectors of the economy. Services and industry, which have been developing strongly since last year, continued to grow substantially. Non-gold industries demonstrated significant growth across all main sectors. Kumtor related gold production increased also significantly. Favorable weather conditions of this year allowed collecting harvest early than last year, and it led to growth of agriculture by 3.9 percent. On the demand side, there is a positive sign of recovery of gross domestic investment, which increased by 26 percent in the first half of this year over the same period of last year, albeit from low basis. The inflation remained low at only 0.2 percent. The real effective exchange rate depreciated by 3 percent since beginning of the year, and the nominal exchange rate of som against US\$ has been relatively stable. Current account deficit declined to 1.3 percent of GDP from 1.8 percent of GDP in the same period of last year. Both exports and imports of goods increased by near to 40 percent. The third quarter of 2004 has seen the sale of domestic shares of Ceterra joint venture at amount of US\$ 83 million, which brought a sharp increase in gross international reserves. Fiscal deficit of the general government declined to 2.5 percent of GDP from 3.5 percent in January-September 2003 due to both revenue increase and expenditure retrenchment.

1. Growth

- **Real GDP** grew by 7.0 percent in January-September of this year over the same period of last year, based on contribution of services (3.4 percentage points), non-gold industry (1.5 percentage points), and agriculture (1.4 percentage points). Non-gold GDP grew by 6.9 percent.
- **Non-gold industrial output** increased by 11.6 percent in real terms, reflecting increase in both domestic and external demand. Food processing output, and production of construction materials and power, the main non-gold industries, increased by 7.2, 30.1 and 8.7 percent respectively.
- **Agricultural output** increased by 3.9 percent. Production of cotton and tobacco, the main export agricultural items, increased substantially; however, export prices on cotton declined dramatically. Production of fruits and vegetables increased also significantly due to favorable weather conditions.

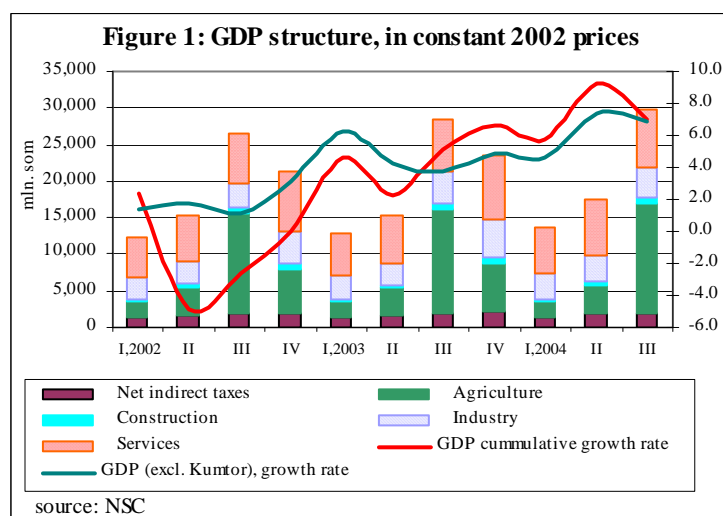


Table 1: Growth rates of GDP and value added of sectors

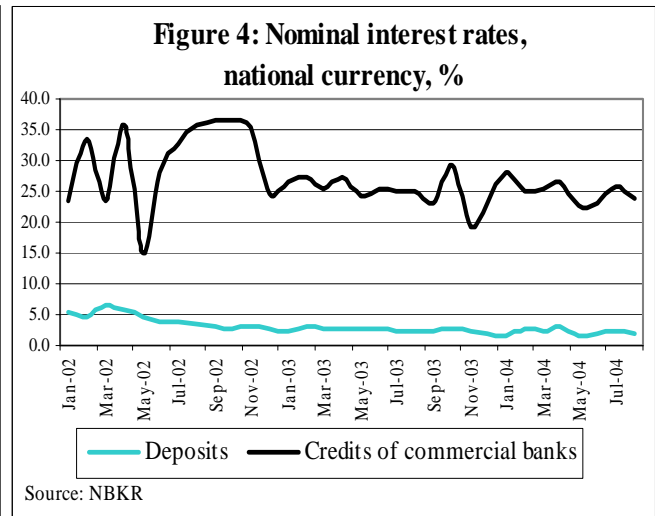
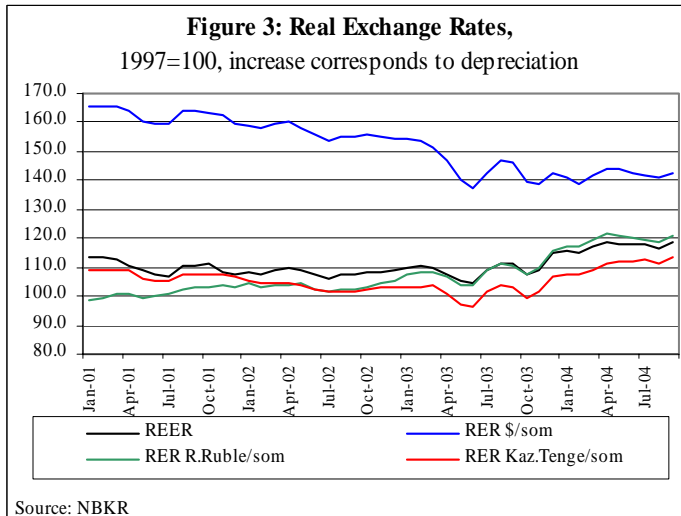
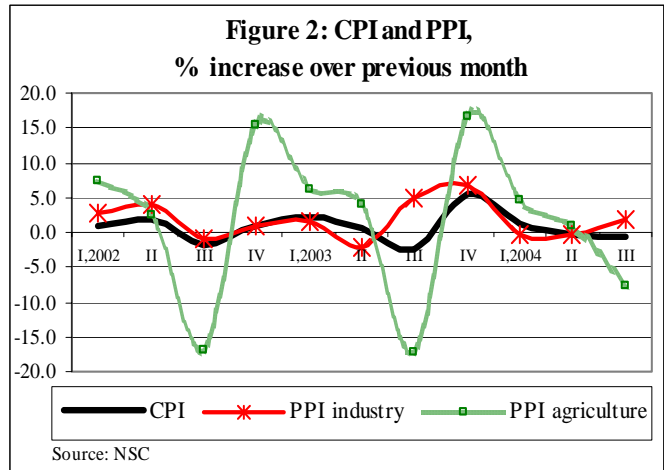
	2001	2002	2003	9 m 2003	9 m 2004
GDP	5.3	0.0	6.7	5.1	7.0
GDP excl. Kumtor-gold	4.1	3.1	4.9	3.7	6.9
Agriculture	7.3	3.0	3.8	0.6	3.9
Construction	4.0	1.4	-6.8	0.5	1.5
Industry	4.8	-13.4	17.9	14.0	9.1
Services	3.3	4.4	5.8	5.8	9.7

Source: NSC

- **Construction sector output** increased by only 1.5 percent. Transport and power generation sectors were the main sectors where public construction significantly increased, and trade and real estates were the sectors where private construction increased.
- **Services** grew by 9.7 percent. Trade, other individual services, and hotel and food services continued to explain this strong growth.

2. Inflation, exchange rate, and interest rates.

- **Consumer prices** (September to December) increased only by 0.2 percent; however, average consumer prices in January-September increased by 4.6 percent over the same period of last year, reflecting increase in prices on food products over the last year's prices.
- **The real effective exchange rate** depreciated by 3 percent over its December level. The real exchange rate of som against US dollar was stable. Low inflation, compared to ones in Kazakhstan and Russia, led to depreciation of som against Kazakh tenge by 6.6 percent and by 4.5 percent against Russian ruble in real terms, while in nominal terms it depreciated only by 3 percent against Kazak tenge and slightly appreciated against Russian ruble.
- **Interest rate** on loans remains relatively high at 25 percent in average. Margin between interest rates on loans and deposits remains high too.



3. External Sector

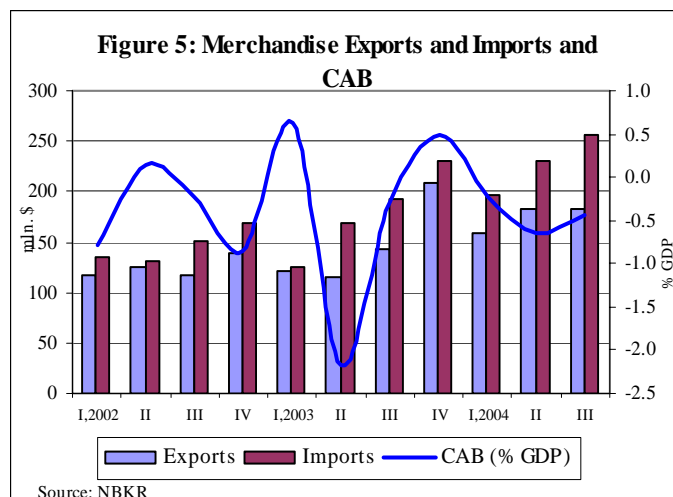
- **Current account deficit (CAD)** declined to 1.3 percent of GDP from 1.8 percent of GDP in January-September of 2003, reflecting increase in exports of goods and services and private transfers.

Merchandise imports increased significantly as well. Another significantly increased outflow item was reinvested earnings from FDI, which are recorded in income account.

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

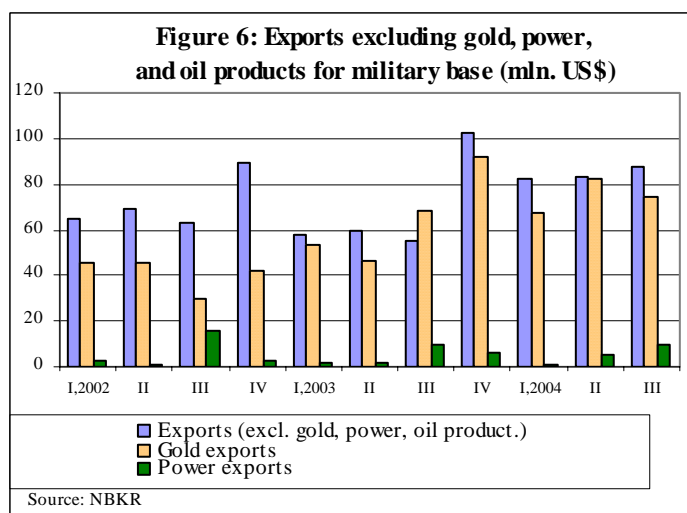
	2001	2002	2003	9 m. 2003	9 m. 2004
CAB (% GDP)	-1.2	-1.7	-1.3	-1.8	-1.3
CAB (million US\$)	-18.9	-27.2	-25.6	-34.8	-28.1
Merchandise Exports	480.3	498.1	590.3	378.8	526.7
Gold exports	226.7	162.8	259.6	168.0	224.5
Merchandise Imports (fob)	440.4	552.1	673.0	455.9	619.6
Exports of services	80.3	138.4	145.7	108.3	139.8
Imports of services	124.7	145.5	135.9	106.4	118.5
Net income	-65.5	-56.2	-61.7	-27.1	-59.2
interest payments (schedule)	-39.4	-32.3	-26.8	-15.4	-22.4
Current Transfers	51.1	88.4	111.7	67.7	102.6

Source: NBKR

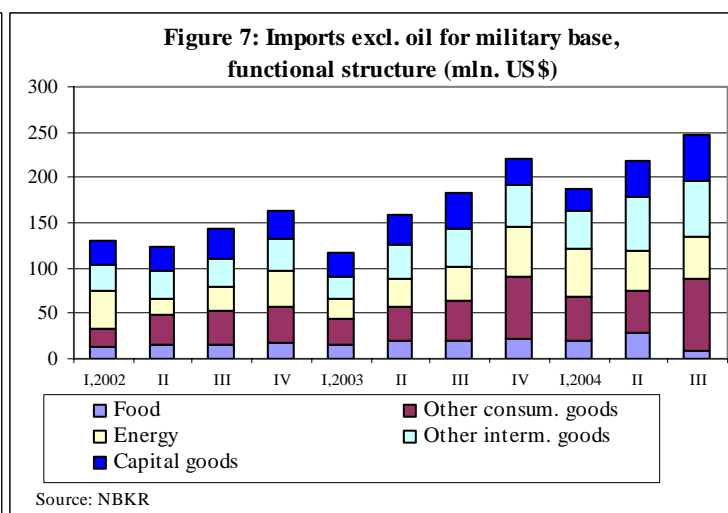


Source: NBKR

- **Merchandise exports** increased by 39 percent. Gold export, the major export item, increased by 34 percent in US\$ terms, reflecting both increases in volume and in prices. Substantial growth of economies in Russia and Kazakhstan facilitated increase in non-gold exports.
- **Merchandise imports (c.i.f.)** increased by 37 percent. Imports increased across all types of goods, but the largest increase in absolute terms was recorded in imports of consumer goods and energy products.



Source: NBKR



Source: NBKR

4. General Government budget

- **Fiscal deficit (accrual)** of the general government budget decreased to 2.5 percent of GDP, compared to 3.5 percent of GDP in January-September of last year. Such remarkable deficit reduction was achieved due to both an increase in revenue collections and retrenchment of expenditures.
- **The general government revenue** was recorded at 16.6 percent of GDP, the highest level attained over the last three years. Revenue growth reflected improved tax collection performance. Thus, tax

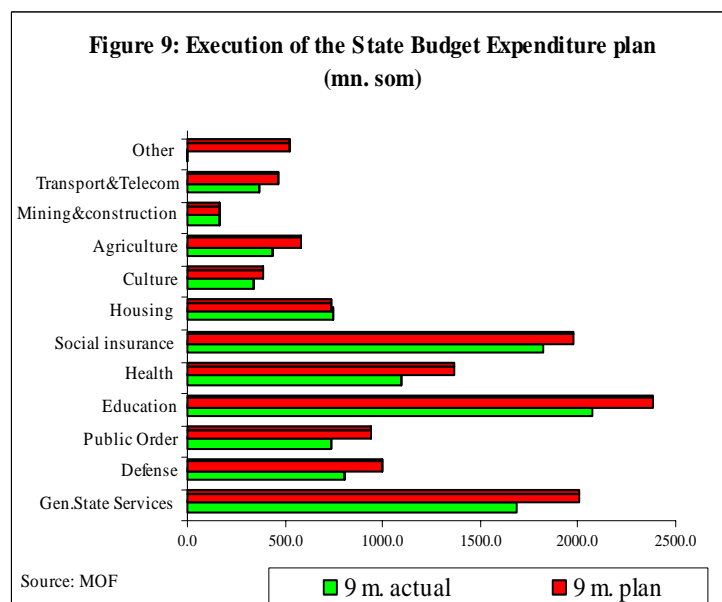
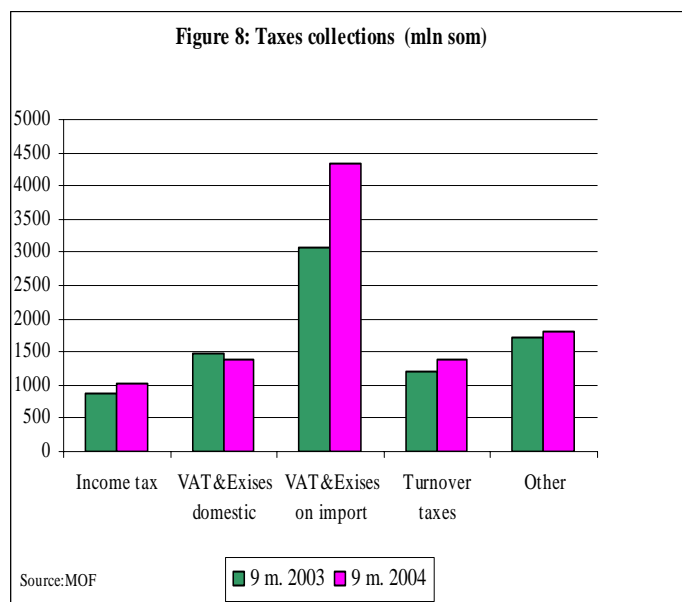
revenues reached 13.6 percent of GDP, against 12.6 percent last year, while non-tax and capital revenues decreased (see Table 3). Despite good macroeconomic performance, contribution of domestically originated taxes to this increase was modest at 20 percent, while VAT and excises on import increased significantly, accounting for 80 percent of tax collection increase. The tax collection plan was executed at 100.9 percent.

- **The general government expenditure** as a share of GDP declined to 19.4 percent, against 20.1 percent, recorded last year. In nominal terms, expenditures increased by Som 1.0 billion, mainly due to increased salaries and pensions. Despite the nominal increase in expenditures, approved plan on state budget expenditures (other than special means) was executed at 86 percent only. In some sectors the level of execution was even lower, e.g. in health at 80 percent, in agriculture at 75 percent, and in public order and security at 78 percent. Given that protected items (mainly salaries) are being financed usually at the planned level, execution of non-protected items were generally repressed.

Table 3: General government budget (% of GDP)

	January-September				
	2002	2003	2002	2003	2004
Total revenue	22.7	22.9	15.9	16.3	16.6
Taxes	17.5	17.8	12.4	12.6	13.6
Income and profit tax	2.9	2.7	2.0	1.8	1.9
VAT	6.4	6.6	4.5	4.5	5.2
Excises	1.4	1.4	1.0	1.0	1.0
Customs	0.6	0.5	0.4	0.3	0.3
Payroll	3.6	3.5	2.6	2.6	2.7
Others	2.7	3.1	1.9	2.4	2.4
Non-tax and Capital	4.1	4.6	2.9	3.2	2.8
Grants	1.1	0.6	0.7	0.4	0.2
Total expenditure	28.5	28.1	20.1	20.1	19.4
Current	22.6	23.3	16.0	16.5	16.0
Wages	5.3	5.7	3.6	3.6	3.8
Transfers&subsidies	9.3	8.8	6.5	5.8	6.0
Interest	1.9	1.6	1.1	0.9	1.2
Goods and services	6.1	7.2	4.7	6.1	4.9
Capital	6.0	4.8	4.2	3.6	3.5
Foreign financed PIP	4.7	3.6	3.4	2.9	2.8
Net lending	-0.6	-0.5	-0.4	-0.3	-0.3
Balance	-5.2	-4.7	-3.8	-3.5	-2.5

Source: the MOF and WB staff calculations



5. The main legislative changes with economic impact in January-September 2004

- President's decree # 301 "On Civil Service Agency" (September 18, 2004) established new body, responsible for implementation of merit-based and professional civil service policy, outlined in recently approved Civil Service law.
- The laws # 83 (approved on July 1, 2004) and # 171 (September 30, 2004) introduced amendments to the Tax Code of KR and provided VAT exemptions for (i) procurement of textbooks and other printed publications, and for (ii) delivery of works and the services connected to all kinds of the international air lifts.
- The law # 129 (August 13, 2004, will be effective from January 1, 2005) approved amendments to the law "On Licensing", introducing licensing requirements for customs service (customs carrier, owner of short-term storage, owner of customs storage, owner of free of tax shop, customs broker).
- The laws # 93 (July 20, 2004) and # 169 introduced several amendments to the law "On basic principles of the budget". In particular, the amendments provide new definitions of the local budget (as budget of ayil-okmotus, towns or settlements) and categorical grants. Also, the amendments identify the Economic Policy Council as the main body, responsible for elaboration and approval budget policy.
- The law # 88 approved new Customs Code of the Kyrgyz Republic (July 12, 2004) to introduce international principles of customs procedures. The Code will be effective from January 1, 2005.

Kyrgyz Republic: Key macroeconomic indicators

	2000	2001	2002	2003	2003	2003	2003	2003	2004	2004	2004
					I	II	III	IV	I	II	III
<u>GDP and prices</u>											
GDP real growth (%)	5.4	5.3	0	6.7	4.6	0.8	7.8	10.8	5.7	12.2	4.8
GDP, som million	65,358	73,883	75,367	83,421	13,711	16,056	29,264	24,390	15,270	19,281	33,275
GDP, USD million	1,370	1,525	1,606	1,909	298	372	684	569	354	444	784
GDP per capita dollar (at avg x-rates)	279	308	322	383	...	...	...	...	...	...	...
Poverty headcount (% of population)	52	48	44	41	...	...	...	...	...	...	...
Extreme Poverty headcount (% of population)	18	14	14	9	...	...	...	...	...	...	...
GDP per capita, 1990=100	59	62	62	65	...	...	...	...	...	...	...
GNI per capita dollar GDP (Atlas)	280	280	290	350	...	...	...	...	...	...	...
Inflation (% beginning-to-end of period, CPI)	9.6	3.7	2.3	5.6	2.0	0.5	-2.5	5.6	1.3	-0.4	-0.7
Inflation (% average, CPI)	18.7	6.9	2.1	3.1	3.0	...	...	...	5.3	...	...
Wage, average for KR (som per month)	1227	1455	1684	1902	1683	1887	1952	2104	1956	2050	2101
Pension, average for KR (som per month)	462	558	561	647	620	654	668	647	685	711	721
Exchange rate (som/\$, end of period)	48	48	46	44	46	41	43	44	43	43	43
Exchange rate (som/\$, avg of period)	48	48	47	44	46	43	43	43	43	43	42
REER (end of period, 1997=100, up=depreciation)	114	107	109	115	110	105	111	115	117	118	119
M2 (e.o.p as percent of GDP)	11.3	11.1	14.6	17.6	13.8	14.3	15.4	17.6	16.3	17.2	18.1
<u>External Sector</u>											
Current account balance (% GDP)	-5.6	-1.2	-1.7	-1.3	0.6	-2.2	-0.3	0.5	-0.2	-0.7	-0.4
Exports (mln US\$, f.o.b.)	511	480	498	588	121	115	142	210	159	184	182
- Power	80	47	22	19	2	2	10	6	2	6	0
- Gold	197	227	163	260	54	46	68	92	67	83	75
- Other	234	207	313	310	66	67	64	112	89	95	108
Imports (mln US\$, c.i.f.)	559	472	587	716	126	168	193	230	197	231	257
- Food	61	44	64.0	78	16	19	20	23	20	29	8
- Other consumer goods	149	128	130	178	28	38	45	68	48	47	80
- Energy	129	121	152	180	31	40	46	63	60	57	56
- Other intermediate goods	113	121	125	152	25	38	42	47	42	58	62
- Capital goods	107	58	116	128	26	33	39	29	26	41	50
External Debt (mln US\$)	1712	1678	1785	1,961	1,804	1,840	1,912	1,943	1,965	1,981	2,020
External Debt (% GDP)	125.0	110.0	111.1	102.7	94.5	96.4	100.2	101.8	93.6	94.4	96.2
Total debt service to exports of GS (%)	28.1	30.8	20.7	22	14.2	24.0	8.0	36.7	29.5	17.4	7.4
Public debt service to state revenues&grants (%)	37.4	27.7	23.3	15	19.0	17.7	10.8	17.7	9.3	19.4	10.6
Public external borrowing (excl. IMF, mln \$)	127	110	88	71	16	14	20	21	5	18	48
FDI (mln \$) ¹	-2	5	5	46	4	2	6	34	16	16	12
<u>General Government Budget (percent of GDP)²</u>											
Revenues and grants	18.5	20.4	22.7	22.9	4.3	5.9	6.1	6.7	5.0	5.7	5.9
Grants	0.9	0.8	1.1	0.6	0.0	0.1	0.4	0.1	0.2	0	0
Tax	12.3	12.4	13.9	14.3	2.7	3.4	3.9	4.3	3.1	3.8	4.0
Social fund contributions	3.7	4.0	4.2	3.4	0.8	0.8	0.9	0.9	0.9	0.9	0.9
Nontax and capital	1.5	3.2	3.5	4.6	0.8	1.5	0.9	1.4	0.7	1.0	1.0
Expenditures	28.1	26.2	27.9	27.6	5.5	7.3	7.0	7.8	5.9	6.9	6.4
Current (other than interest)	18.6	20.5	20.7	21.9	4.7	5.6	5.4	6.2	5.0	4.9	4.9
o.w. transfers & subsidies	7.5	8.2	9.4	8.8	1.7	2.2	2.1	2.8	1.8	2.1	2.2
wages & salaries	4.4	4.9	5.4	5.7	1.0	1.2	1.4	2.1	0.9	1.5	1.4
Interest payments	2.2	1.7	1.9	1.6	0.2	0.6	0.1	0.6	0.2	0.8	0.2
Capital	7.8	5.3	6.0	4.8	0.7	1.2	1.6	1.2	0.8	1.3	1.4
of/which foreign financed PIP	6.5	4.4	4.7	3.6	0.6	1.0	1.3	0.7	0.7	1	1.1
Net lending	-0.5	-1.1	-0.6	-0.5	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1
Fiscal Balance (accrual)	-9.6	-5.8	-5.2	-4.7	-1.2	-1.4	-0.9	-1.1	-0.8	-1.2	-0.5
Memo:											
Primary Deficit (w/o interest and PIP)	-0.9	0.2	1.4	0.5	-0.4	0.2	0.5	0.2	0.1	0.6	0.8
Primary Deficit (w/o interest)	-7.4	-4.2	-3.3	-3.1	-1.0	-0.8	-0.8	-0.5	-0.6	-0.4	-0.3

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