

The Kyrgyz Republic Recent Economic Developments: 2003

Summary

The Kyrgyz economy recovered well from the economic downturn last year, growing by 6.7 percent in 2003 – the highest growth attained over the last six years, albeit over a very low base. The recovery of Kumtor related gold production contributed 1.8 percent to GDP growth. Services and non-gold industry grew very strongly as well. Inflation turned out higher than projected and increased to 5.6 percent after its stable decline during last three years. Real effective exchange rate, which significantly fluctuated during the year, depreciated by 5.6 percent by the end of year.. External current account remained at its previous year level on balance, but both exports and imports increased substantially. Concerning exports, increase of gold export explains the overall growth of exports, with non-gold exports remaining still weak. Concerning imports, the most significant increase occurred in imports of consumer goods, caused by significant appreciation of national currency against the US\$—the main settlement currency for consumer goods. Fiscal deficit of the general government decreased quite noticeably from 5.3 percent of GDP to 4.3 percent, mainly due to sharp reduction in foreign financed Public Investment Program.

1. Growth

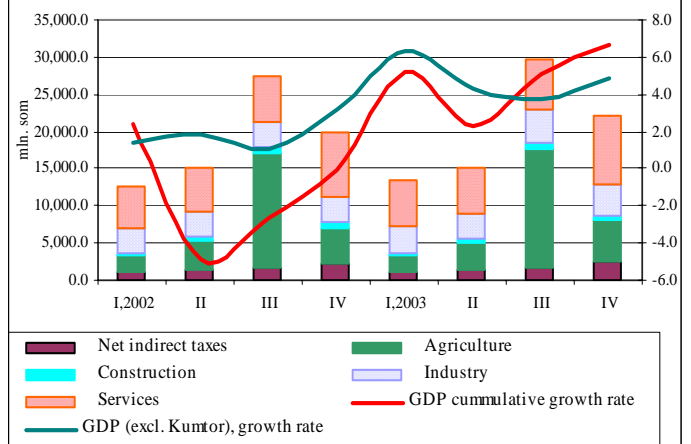
- **The real GDP** grew by 6.7 percent based on contribution from agriculture (1.3 percent), industry (1.1 percent) and services (2.4 percent). The non-gold GDP increased by 4.9 percent.
- **Non-gold industrial output** increased by 8.5 percent in real terms. Food industry has been growing strongly over the last two years, contributing about 17 percent to total industrial output, and becoming increasingly a significant sector of the industry. Recovery of exports of construction materials led to significant increase in its production, albeit from low level in 2002. Growth of power production also significantly contributed to increase of industrial output.
- **Agricultural output** increased by 3.8 percent in real terms mainly due to growth of crop production by 6.2 percent. Production of sugar beets, vegetables, tobacco and potatoes increased. On the other hand, production of other important products, e.g. grain, cotton and fruits declined.
- **Construction** activities decreased by 6.8 percent reflecting diminishing spending in construction of Bishkek-Osh road – the main construction project under the Public Investment Program.
- **Services** grew by 5.8 percent demonstrating strong growth pattern over the last few years. Trade, public catering, hotels and other individual services are the key strongly growing services.

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

	2001	2002	2003
GDP	5.3	0.0	6.7
GDP excl. Kumtor-gold	4.1	3.1	4.9
Agriculture	7.3	3.0	3.8
Construction	4.0	1.4	-6.8
Industry	4.8	-13.4	17.9
Services	3.3	4.4	5.8

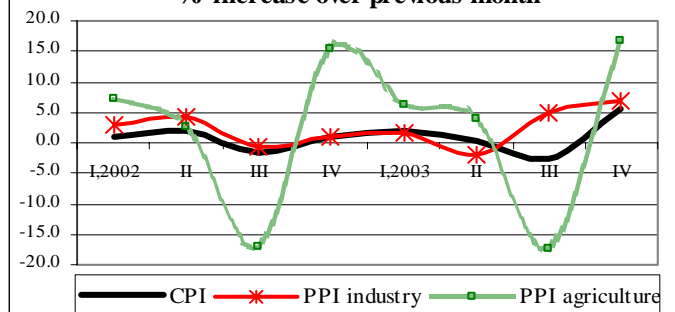
Source: NSC

Figure 1: GDP structure, in constant 2002 prices



source: NSC

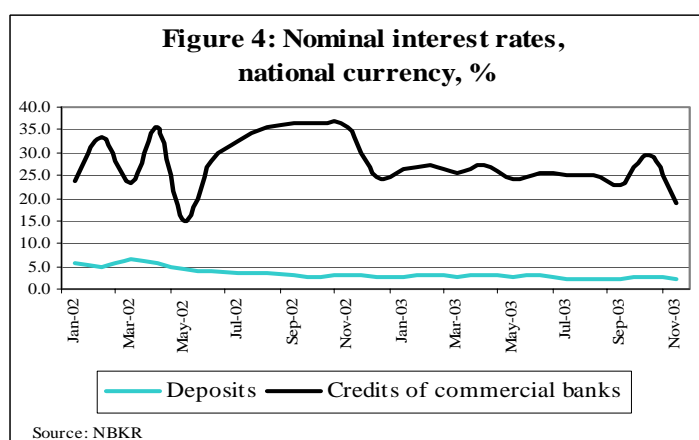
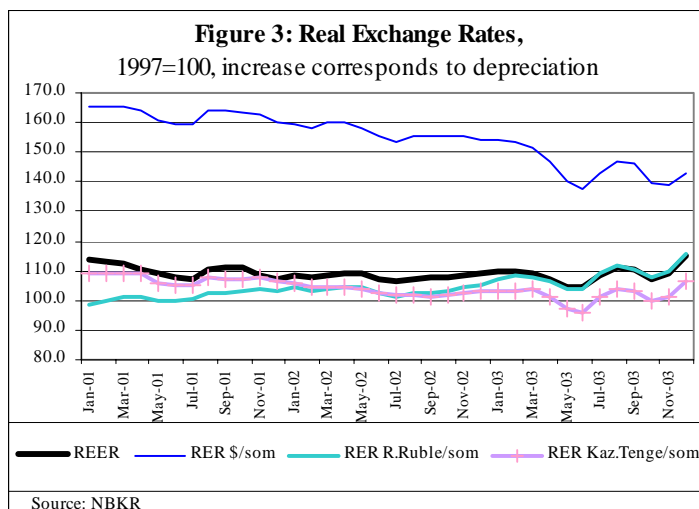
Figure 2: CPI and PPI, % increase over previous month



Source: NSC

2. Inflation, exchange rate and interest rates

- Consumer prices** (December to December) increased by 5.6 percent reflecting the increase in prices on food products by 5.3 percent and services by 18.5 percent. Decline of grain production and its lower import from Kazakhstan, and also low yield of fruits caused significant increase of prices on flour products and on fruits in 2003. An increase of fuel prices in forth quarter of 2003 due to disruption in oil product imports from Kazakhstan increased transport-service prices.
- Real effective exchange rate** depreciated by 5.6 percent after significant fluctuations within the year. Real exchange rate depreciated by 10 percent against Russian Ruble and by 3 percent against Kazakh Tenge. It is also depreciated by 9 percent against Euro, however, appreciated against US\$ by 4 percent reflecting overall weakening of US\$.
- Interest rates** on commercial bank credits averaged to 25 percent in 2003—5 percentage points lower than the last year's level. Interest rates on deposits were stable and very low in 2003.



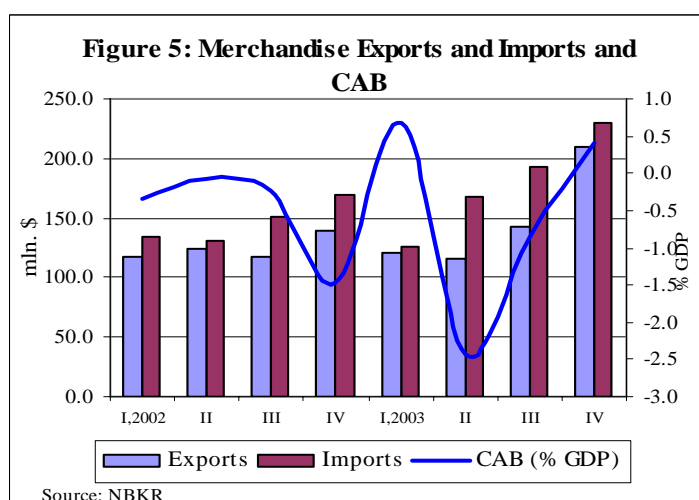
3. External Sector

- Current account deficit** remained at previous year level, which is 2.2 percent of GDP, however, both exports and imports increased over their level last year.

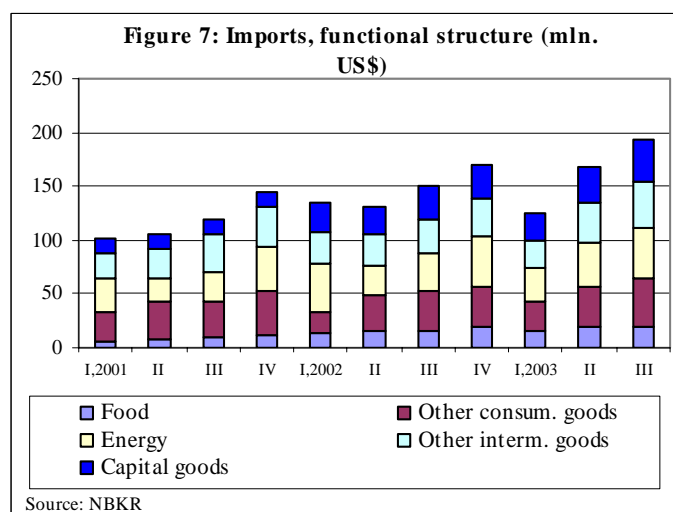
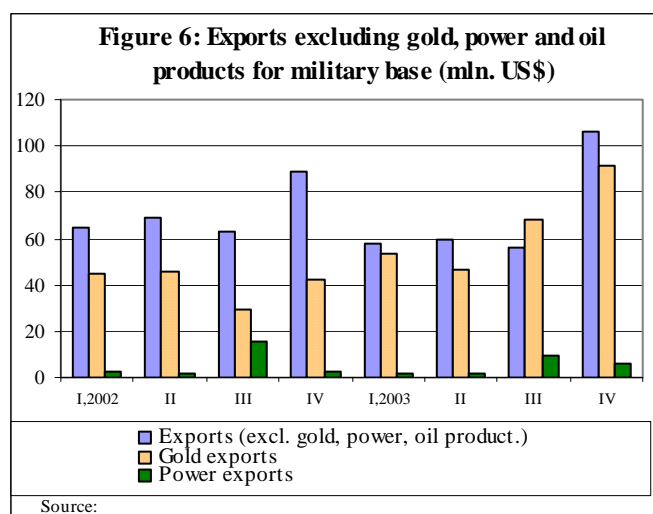
Table 2: Current Account Balance (million US\$)

	2001	2002	2003
CAB (% GDP)	-1.2	-2.2	-2.2
CAB (million US\$)	-18.9	-34.6	-42.0
Merchandise Exports	480.3	498.1	588.3
Gold exports	226.7	162.8	259.6
Merchandise Imports (fob)	440.4	552.1	673.7
Exports of services	80.3	138.4	145.7
Imports of services	124.7	145.5	135.9
Net income	-65.5	-59.7	-44.6
interest payments (scheduled)	-39.4	-32.3	-27.0
Current Transfers	51.1	86.1	78.0

Source: NBKR



- **Exports of goods** increased by 18 percent in 2003 over its last year value, mainly reflecting recovery of gold exports, which increased by 60 percent as well as gold price increase. However, exports other than gold and oil products for military base remain weak (depicting a 3 percent decline in 2003) with relatively high commodity and geographical concentration. This reduction of exports could be explained by decline in demand of the main agricultural export items, such as tobacco, cotton and raw leather. The value of power export declined also, despite increase in volume of exports, reflecting initiating of export of power to Russia. However, power exported to Russia had very low tariff and, therefore, it did not generate much export revenues. An increase in exports of construction materials to Kazakhstan could be highlighted as positive development in export development.
- **Imports of goods** increased by 22 percent, reflecting the increase in imports of all functional categories of goods, with most significant increase being realized in imports of consumer goods caused by appreciation of som against US\$. Significant reduction in excises on oil products could explain increase in oil product imports, which is one of the major smuggled import items.



4. General Government budget

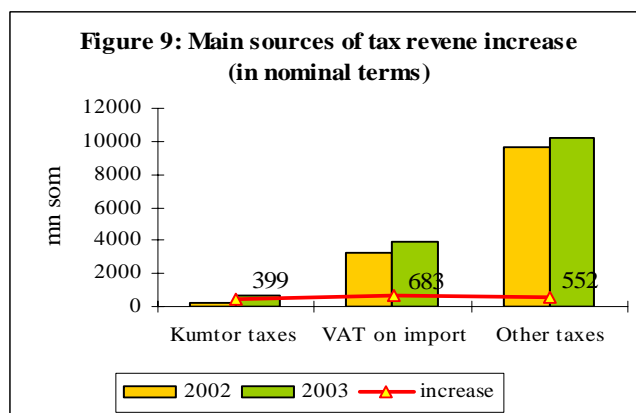
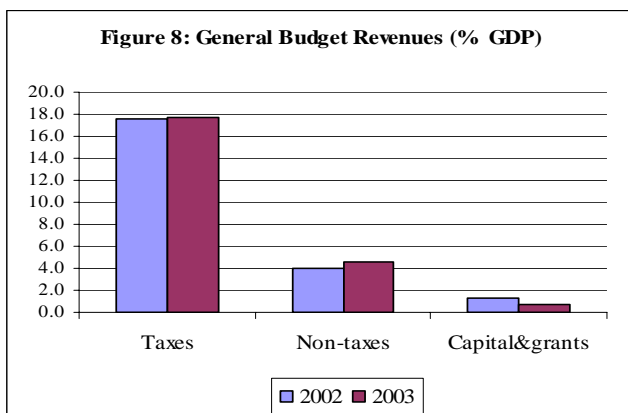
- **Fiscal deficit** (accrual) of the general government budget decreased from 5.2 percent of GDP to 4.3 percent, reflecting mainly diminishing capital expenditures. Primary surplus remained at 1.2 percent of GDP.
- **The total general government revenue** slightly increased from 22.7 percent of GDP last year to 23 percent of GDP in 2003, reflecting growth of both tax and non-tax revenues. However, the increase in tax revenues was led mainly by increase in tax payments by Kumtor gold company (as its tax holidays terminated in mid-2002 and as gold production increased) and VAT on imports (reflecting significant increase in imports). Introduction of VAT on large agricultural producers has not begun to bring tangible revenues yet. Revenues from other taxes decreased from 12.8 percent of GDP to 12.2 percent, despite some

Table 3: General government budget (% of GDP)

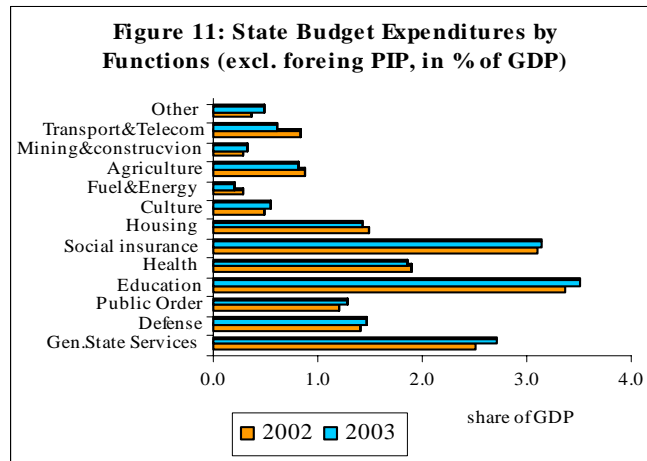
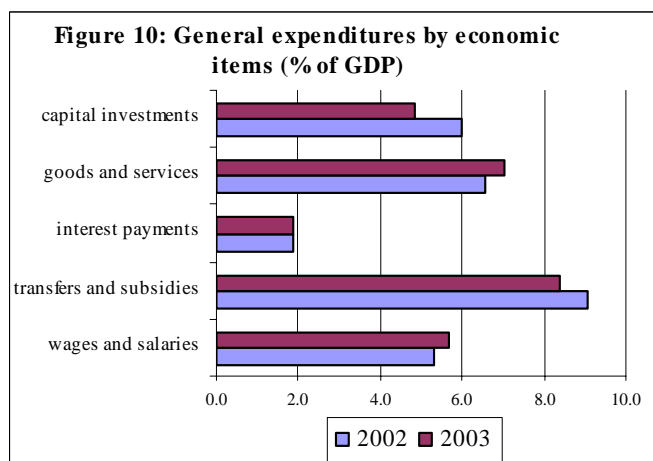
	2001	2002	2003
Total revenue	20.5	22.7	23.0
Tax	15.8	17.5	17.8
Income and profit tax	2.7	2.9	2.7
VAT	5.7	6.4	6.6
Excise	1.5	1.4	1.4
Customs	0.4	0.6	0.5
Payroll	3.3	3.6	3.5
Others	2.2	2.7	3.1
Non-tax and capital	3.8	4.1	4.7
Grants	0.8	1.1	0.6
Total expenditure	26.2	27.9	27.3
Current	22.2	22.6	23.0
Wages	4.9	5.4	5.7
Transfers&subsidies	8.2	9.4	8.4
Interest	1.7	1.9	1.9
Goods and services	7.3	5.9	7.0
Capital	5.3	6.0	4.7
foreign financed PIP	4.4	4.7	3.6
Net lending	-1.1	-0.6	-0.5
Balance	-5.8	-5.2	-4.3

Source: the MoF and WB staff calculations

increase in nominal terms. Non-tax revenues as a percentage of GDP increased by 0.5 percentage points, mainly due to increase in the National Bank's profits, and hence the related transfers to the state budget, and reflecting continued growth of collections from special means.



- **General government expenditures** decreased noticeably from 27.9 percent of GDP to 27.3 percent, caused mainly by significant decrease in external financing of PIP and some transfers. At the same time, financing of wages and salaries as well as purchases of goods and services increased. By functions, financing of education and general state services continued to increase considerably.



5. Legislative changes with economic impact in 4th quarter of 2003

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

- The government's decree #618 (September 30, 2003) increased VAT registration turnover threshold for agricultural producers from 300 thousand som to 500 thousand som.
- The government's decree #642 (October 13, 2003) on construction of a railway "Balykchy-Kochkor-Kara-Keche" issued. The decree launches the construction of the railway to facilitate Kara-Keche coal mining development, which will help develop railway network in the country.
- The law "On amendments to the Law on goods and services certification" was adopted (November 11, 2003). The law brings Kyrgyz standard authority in compliance with the Law on licenses, abolishing its authority to issue certificates and licenses in some particular cases.

Kyrgyz Republic: Key macroeconomic indicators

	2000	2001	2002	2003	2002	2002	2002	2002	2003	2003	2003	2003
				Prel.	I	II	III	IV	I	II	III	IV
GDP and prices												
GDP real growth (%)	5.4	5.3	0	6.7	-2.4	6.5	0.3	4.8	5.2	-0.1	7.9	11.1
GDP, som million	65,358	73,883	75,367	83,421	12,675.3	15,226.5	27,496.0	19,968.9	13,998.4	15,546.3	29,889.0	23,987
GDP, USD million	1,370	1,525	1,606	1,909	265	319	597	434	304	360	699	559
Inflation (% beginning-to-end of period, CPI)	9.6	3.7	2.3	5.6	1.1	2.0	-1.7	1.0	2.0	0.5	-2.5	5.6
Deflator GDP (%)	27.2	7.3	2.3	3.8	3.6	3.3	4.6	-3.2	4.9	2.2	0.7	8.2
Wage, average for KR (som per month)	1124	1393	1678	...	1423	1575	1623	1842	1683	1886.9	1952.2	...
Pension, average for KR (som per month)	462	558	561	...	579	564	602	612	631	665	669	...
Exchange rate (som/\$, end of period)	48	48	46	44	48	46	46	46	46	41	43	44
Exchange rate (som/\$, avg of period)	48	48	47	44	48	48	46	46	46	43	43	43
REER (end of period, 1997=100, up=depreciation)	114	107	109	115	109	107	108	109	109	104	111	115
RER of som/US\$ (end of period, 1997=100, up=depreciatic)	167	160	154	143	160	156	155	154	152	137	146	143
M2 (e.o.p as percent of GDP)	11.3	11.1	14.6	17.6	11.6	11.7	13.1	14.6	13.8	14.3	15.4	17.6
External Sector												
Current account balance (% GDP)	-5.6	-1.2	-2.2	-2.2	-0.3	-0.1	-0.2	-1.5	0.7	-2.4	-0.9	0.4
Exports (mln US\$, f.o.b.)	511	480	498	588	117	125	117	140	121	115	142	210
- Power	80	47	22	19	2	1	16	3	2	2	10	6
- Gold	197	227	163	260	45	46	30	42	54	46	68	92
- Other	234	207	313	310	69	78	71	95	66	67	64	112
Imports (mln US\$, c.i.f.)	559	472	587	716	135	132	151	170	126	168	193	230
- Food	61	44	64.0	78	13	16	16	19	16	19	20	23
- Other consumer goods	149	128	130	178	21	33	37	39	28	38	45	68
- Energy	129	121	152	180	45	27	35	45	31	40	46	63
- Other intermediate goods	113	121	125	152	29	29	31	36	25	38	42	47
- Capital goods	107	58	116	128	26	26	32	31	26	33	39	29
External Debt (mln US\$)	1712	1678	1776	1,784	1665	1705	1738	1776	1804	1840	1912	1,942.6
Public External Debt (mln US\$)	1403	1436	1576	1,666	1429	1498	1524	1576	1602	1640	1694	1700.8
External Debt (% GDP)	125.0	110.0	110.6	93	103.7	106.2	108.2	110.6	94.5	96.4	100.2	101.8
Total debt service to exports of GS (%)	28.1	30.8	20.7	25	10.0	39.0	9.7	23.4	14.2	24.0	8.0	41.0
Public debt service to state revenues&grants (%)	37.4	27.7	22.6	14	11.6	50.7	9.8	19.3	18.9	16.9	10.2	17.6
FDI (mln \$) ¹	-2	5	5	21	5	-12	9	3	4	2	6	9.4
General Government Budget (percent of GDP) ²												
Revenues and grants												
Grants	0.9	0.8	1.1	0.5	0.3	0.0	0.3	0.4	0.0	0.1	0.4	0.1
Tax	12.3	12.4	13.9	14.8	2.8	3.3	3.8	4.1	2.7	3.7	4.1	4.3
Social fund contributions	3.3	3.3	3.6	2.9	0.8	0.8	1.0	1.0	0.8	0.6	0.6	0.9
Nontax and capital	1.9	3.8	4.1	4.6	0.7	1.1	1.0	1.3	0.7	1.5	1.0	1.4
Expenditures												
Current (other than interest)	18.6	20.5	20.7	21.1	4.5	5.2	5.3	6.0	4.7	5.3	5.3	5.8
o.w. transfers & subsidies	7.5	8.2	9.4	8.4	2.1	2.2	2.2	2.6	1.7	2.1	2.0	2.6
wages & salaries	4.4	4.9	5.4	5.7	1.0	1.4	1.3	1.7	1.0	1.2	1.4	2.1
Interest payments	2.2	1.7	1.9	1.9	0.2	0.7	0.2	0.8	0.3	0.7	0.3	0.7
Capital	7.8	5.3	6.0	4.7	1.2	1.2	1.7	1.8	0.7	1.2	1.6	1.2
of/which foreign financed PIP	6.5	4.4	4.7	3.6	1.0	1.0	1.4	1.3	0.6	1.0	1.3	0.7
Net lending	-0.5	-1.1	-0.6	-0.5	-0.1	-0.2	-0.1	-0.2	-0.1	-0.1	-0.1	-0.2
Fiscal Balance (accrual)												
	-9.6	-5.8	-5.2	-4.3	-1.2	-1.6	-1.0	-1.6	-1.3	-1.3	-0.9	-0.8
Memo:												
Primary Deficit (w/o interest and PIP)	-0.9	0.2	1.4	1.2	0.0	0.0	0.6	0.5	-0.4	0.4	0.7	0.6
Primary Deficit (w/o interest)	-7.4	-4.2	-3.3	-2.4	-1.0	-1.0	-0.8	-0.8	-1.0	-0.6	-0.6	-0.1

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