

The Kyrgyz Republic
Recent Economic Developments: first quarter 2004

Summary

In first quarter of 2004 the Kyrgyz economy grew by 5.7 percent, indicating continued strong growth since last year. Services, the most dynamically developing sector, demonstrated the largest contribution to this growth. In addition to Kumtor-related gold production, that contributed 1.1 percent to GDP growth, non-gold industrial production demonstrated continued growth as well. However, overall investment was weak, with only tangible increase in public investment in the power generation sector. The inflation was low - consumer prices (March to December) increased only by 1.3 percent, after 5.6 percent increase in fourth quarter of 2003, which was related to fuel and wheat import disruption. The real effective exchange rate and the real exchange rate against US dollar were relatively stable, with sign to slight depreciation at end-March. The external current account balance was in deficit, in opposite to its positive balance in the first quarter of 2003, reflecting substantial increase in imports. The positive feature of the export development of first quarter was growth of exports other than gold and oil products for military base. The imports increased by 57 percent, albeit from their low level in first quarter of 2003. The imports of oil products and consumer goods increased most significantly. Fiscal deficit of the general government declined to 0.9 percent of GDP compared to 1.3 percent in first quarter of 2003. Average monthly salary, which has seasonal pattern, increased by 6.1 percent in real terms over its level in first quarter 2003, and averaged at US\$44.

1. Growth

- **Real GDP** grew by 5.7 percent, based on contribution of services (3.3 percent), gold production (1.1 percent), and non-gold industry (0.8 percent). Non-gold GDP grew by 4.6 percent.
- **Non-gold industrial output** increased by 4.4 percent in real terms. Food processing continued to grow strongly (grew by 9 percent), and it was led by increase in both domestic and external demand. Processing of meat, fruits and vegetables, dairy products, sugar, beverage products were the main stably developing food processing industries. Construction material production, which amounted to 4 percent of industrial output, increased by 28 percent. Its growth was led mainly by the export recovery. Power generation, transmission, and distribution, the second main industry after gold processing, declined by 5.3 percent.

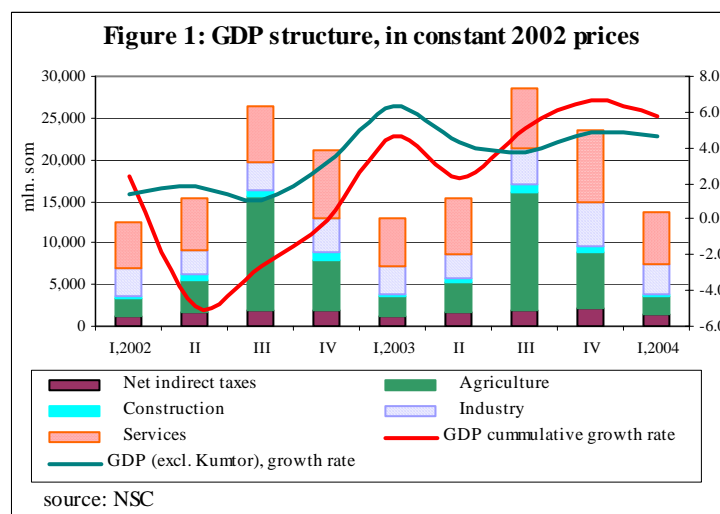


Table 1: Growth rates of GDP and value added of sectors

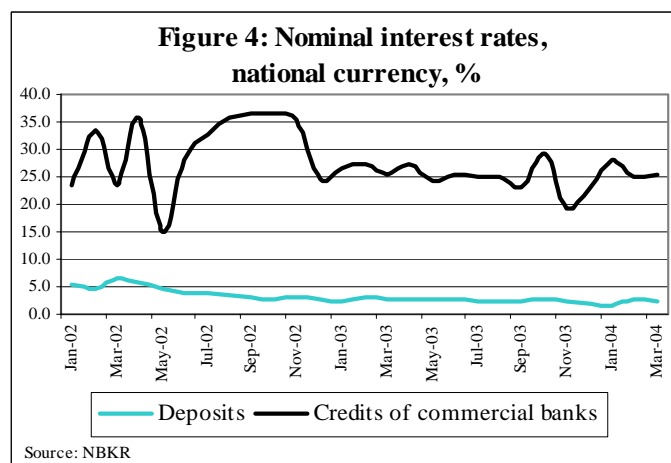
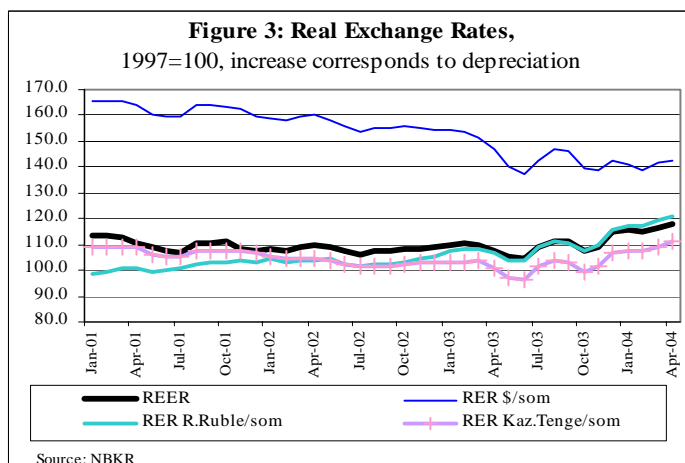
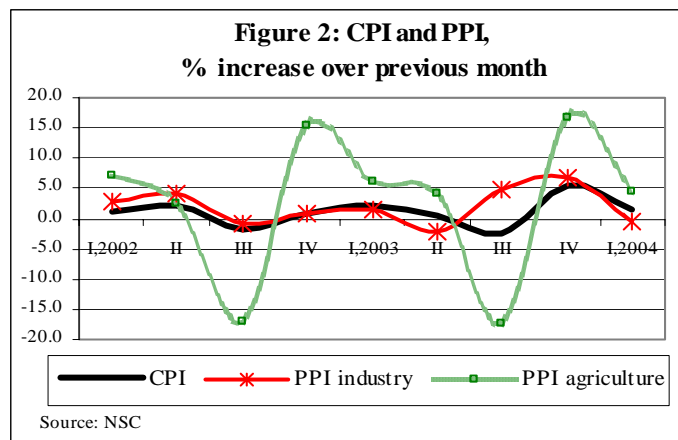
	2001	2002	2003	I 2003	I 2004
GDP	5.3	0.0	6.7	4.6	5.7
GDP excl. gold	4.1	3.1	4.9	5.7	4.6
Agriculture	7.3	3.0	3.8	5.1	0.0
Construction	4.0	1.4	-6.8	-25.6	-5.6
Industry	4.8	-13.4	17.9	-13.4	7.2
Services	3.3	4.4	5.8	9.5	7.6

Source: NSC

- **Agricultural output** remained at first quarter 2003 level. Seasonally, in first quarter, agriculture output comprises only livestock related production, such as livestock itself, milk, and eggs. Only egg production increased; however, it has small share in the total agricultural output.
- **Construction** sector value added declined by 5.6 percent, reflecting near completion of the “Bishkek-Osh” road construction. The construction in power generation sector doubled; however, it was still very low and mainly financed by own sources of the power company.
- **Services** grew by 7.6 percent. Trade and other individual services, and hotel and food services, which increased by 15.3 percent and 7.8 percent respectively, were the most strongly growing services. Transport services (mainly railway) increased by 4.4 percent, most probably reflecting an increase in external trade turnover. Communication services also demonstrated rapid growth and increased by 10.9 percent.

2. Inflation, exchange rate, and interest rates.

- **Consumer prices** (March to December) increased by 1.3 percent, reflecting the seasonal price increase on food products by 2.8 percent. This year farmers, who produced potatoes, averaging to about 10 percent of the annual agricultural output, have experienced price shock. Retail price on potatoes declined 3 times, compared to its level in the fall of the last year, due to potatoes over production and inability to export. Retail fuel prices went down, after their significant increase in last quarter of 2003. Consequently, the prices on transport services declined.
- **The real effective exchange rate** depreciated by 1.4 percent over its December level. The real exchange rate of som against US dollar was relatively stable and appreciated only by 0.7 percent, but depreciated by 3 percent against Russian ruble and by 2 percent against Kazakh tenge.
- **Interest rates** on commercial bank credits averaged to 26 percent, and since 2003 they have not been declining despite low actual and expected inflation.



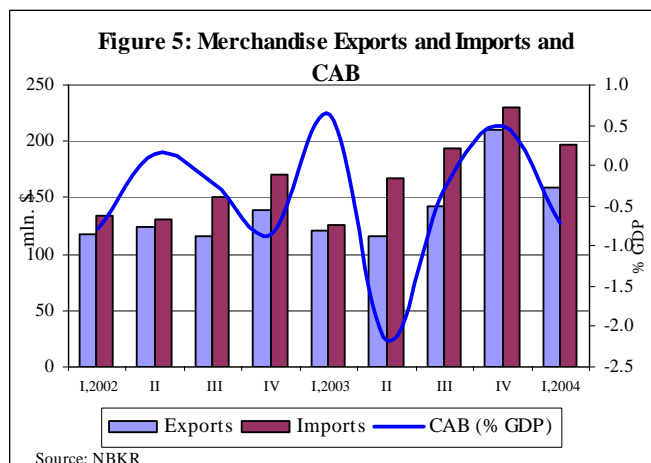
External Sector

- **Current account balance** was negative at 0.7 percent of GDP, compared to its positive balance at 0.6 percent of GDP in first quarter of 2003, mainly due to substantial increase in imports, that exceeded an increase in exports.

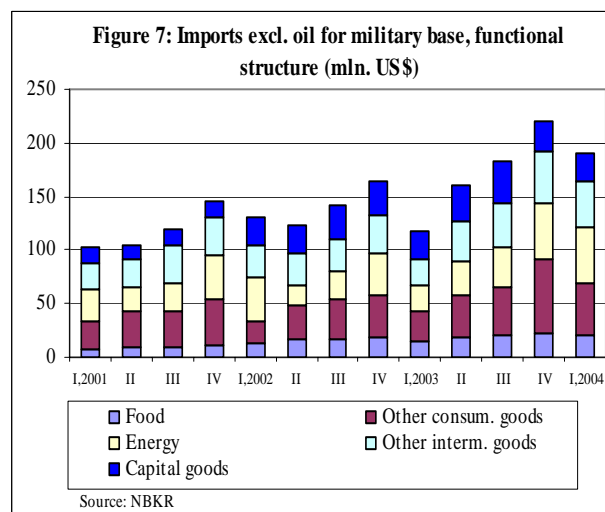
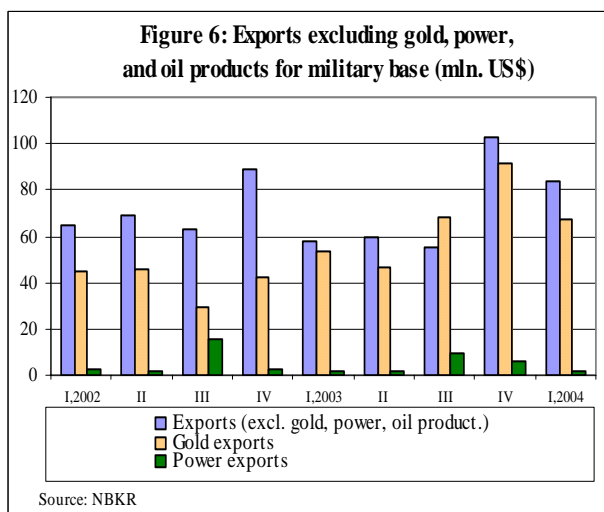
Table 2: Current Account Balance (million US\$)

	2001	2002	2003	I 2003	I 2004
CAB (% GDP)	-1.2	-1.7	-1.3	0.6	-0.7
CAB (million US\$)	-18.9	-27.2	-25.6	12.0	-14.8
Merchandise Exports	480.3	498.1	588.3	121.3	159.3
Gold exports	226.7	162.8	259.6	53.6	67.3
Merchandise Imports (fob)	440.4	552.1	673.7	117.9	185.4
Exports of services	80.3	138.4	145.7	27.3	29.4
Imports of services	124.7	145.5	135.9	-31.0	-34.0
Net income	-65.5	-56.2	-61.7	-6.5	-9.8
interest payments (schedu	-39.4	-32.3	-26.8	-2.3	-7.2
Current Transfers	51.1	88.4	111.7	18.8	25.6

Source: NBKR



- **Merchandise exports** increased by 31 percent over its last year first quarter level, reflecting both gold and non-gold exports growth. The value of gold exports increased by 26 percent, out of which 11 percentage points related to the volume increase and other 15 percentage points to the gold price increase. Exports, excluding gold, fuel for military base, and power increased by 45 percent. Recovery of exports of construction materials and sugar, and an increase in garment exports to the CIS countries explained bulk of the export growth. The increase of sugar exports reflected growth of production of sugar beets last year. Exports to the non-CIS countries increased too; however, they were mainly in form of raw materials, such as cotton, unprocessed skin, and scrap metals.
- **Merchandise imports** increased by 56 percent, reflecting an increase in imports of consumer goods, intermediate goods, and oil products. The imports of investment goods remained at previous year level. Imports of oil products, not related to military base, continued to grow since second quarter of last year, after the government substantially reduced excises on oil products in March 2003. The imports increased mainly from Russia, Kazakhstan, Uzbekistan, and China.



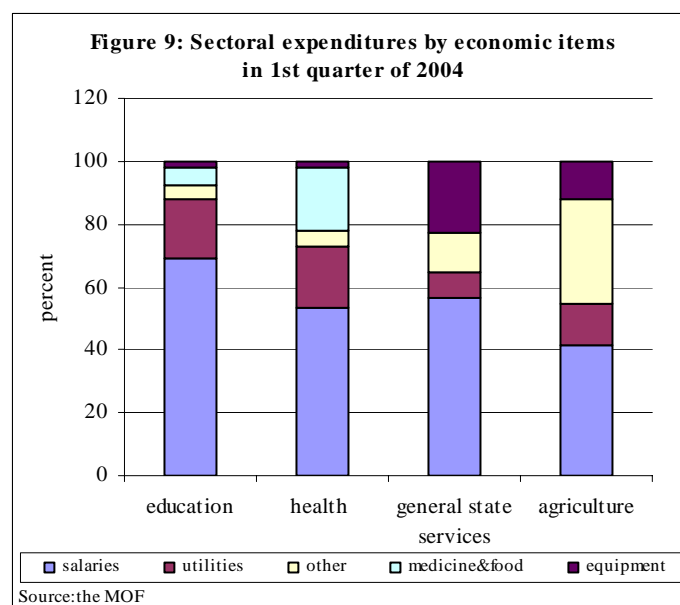
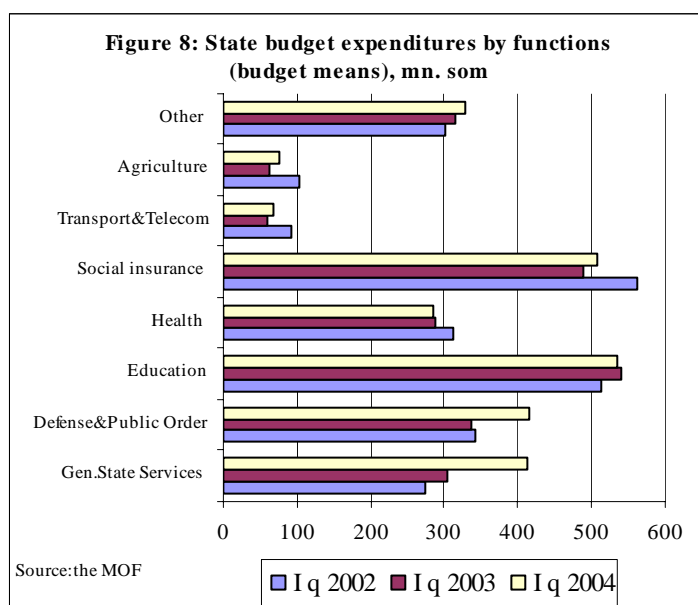
General Government budget

- **Fiscal deficit** (accrual) of the general government budget decreased to 0.9 percent of GDP, compared to 1.2-1.3 percent in first quarters of 2003 and 2002, reflecting revenue increase, while expenditure increased modestly.
- **The total general government revenue** amounted to 5.0 percent of GDP and increased by 0.7 percentage points of GDP, albeit from its low level in first quarter of the last year. This increase was mainly explained by recovery of VAT collection, reflecting improvement in tax administration. An increase in non-tax revenue is mainly explained by increase in Kumtor-related payments to the budget (royalty and concession fee) and collection of special means.
- **General government expenditure** increased as well, albeit more moderately and reached 6.0 percent of GDP. Allocation of resources among sectors was extremely uneven. Thus, financing of such sectors as general state services, defense and public order, transport, and agriculture increased by from 8 to 30 percent in real terms, while financing of health and education reduced by 6 percent. In health and education sectors, the most severe reduction was observed in financing medical insurance for disabled, pensioners and children (by 44 percent), utilities (by 6 percent in health sector and 16 percent in education) and salaries (by 8-9 percent). Despite these financing shrinkages, expenditures on utilities and salaries still build up more than 88 percent of the total education budget and 73 percent – of the health budget, while for purchases of equipment and other goods was used only 2 percent of the total budget in each of the sectors.

Table 3: General government budget (% of GDP)

	2002	2003	I 2002	I 2003	I 2004
Total revenue	22.7	22.9	4.6	4.3	5.0
Taxes	17.5	17.8	3.6	3.5	4.0
Income and profit tax	2.9	2.5	0.7	0.7	0.6
VAT	6.4	6.6	1.3	1.0	1.4
Excises	1.4	1.4	0.3	0.3	0.3
Customs	0.6	0.5	0.1	0.1	0.1
Payroll	3.6	3.5	0.8	0.8	0.9
Others	2.7	3.2	0.4	0.6	0.7
Non-tax and Capital	4.1	4.6	0.7	0.7	0.7
Grants	1.1	0.6	0.3	0.0	0.2
Total expenditure	28.5	28.0	5.9	5.7	6.0
Current	22.6	23.2	4.7	4.9	5.2
Wages	5.3	5.7	1.0	1.0	0.9
Transfers&subsidies	9.3	8.7	2.1	1.7	1.8
Interest	1.9	1.6	0.2	0.2	0.1
Goods and services	6.1	7.3	1.4	2.1	2.4
Capital	6.0	4.8	1.2	0.7	0.8
Foreign financed PIP	4.7	3.6	1.0	0.6	0.7
Net lending	-0.6	-0.5	-0.1	-0.1	-0.1
Balance	-5.2	-4.6	-1.2	-1.3	-0.9

Source: the MOF and WB staff calculations



3. The main legislative changes with economic impact in first quarter of 2004

- The government's decree #149 (March 20, 2004) reduced excise rates for diesel fuel from 500 som/tonne to 200 som/tonne (in force from April 4, 2004);
- The President's Decree # 54 (February 12, 2004) established Good Governance Council, chaired by the president;
- Law as of February 6, 2004 established the government new structure;
- Presidential decree #50 (February 7, 2004) established the National Commission on Civil Service;
- Presidential decree #25 (February 5, 2004) approved the Concept for deregulation of economy, aimed to create more favorable business environment.
- The government's decree #43 (January 28, 2004) approved the state program on entrepreneurship development for 2004-2005, envisaged to improve business-related legislation and financial support of enterprisers.

Kyrgyz Republic: Key macroeconomic indicators

	2001	2002	2003	2002	2002	2002	2002	2003	2003	2003	2003	2004
			Prel.	I	II	III	IV	I	II	III	IV	I
GDP and prices												
GDP real growth (%)	5.3	0	6.7	-2.4	6.5	0.3	4.8	4.6	0.8	7.8	10.8	5.7
GDP, som million	73,883	75,367	83,421	12,372	15,314	26,457	21,223	13,711	16,056	29,264	24,390	15,270
GDP, USD million	1,525	1,606	1,909	258	321	574	461	298	372	684	569	354
Poverty headcount (% of population)	48	44	41	...	...	...	...	...	...	...	...	...
Extreme Poverty headcount (% of population)	14	14	9	...	...	...	...	...	...	...	...	...
GDP per capita, 1990=100	62	62	65	...	...	...	...	...	...	...	...	...
GNI per capita dollar GDP (Atlas)	280	290	350	...	...	...	...	...	...	...	...	...
Inflation (% beginning-to-end of period, CPI)	3.7	2.3	5.6	1.1	2.0	-1.7	1.0	2.0	0.5	-2.5	5.6	1.3
Inflation (% average, CPI)	6.9	2.1	3.1	2.4	0.5	2.8	2.6	3.0	...	...	...	5.3
Wage, average for KR (som per month)	1393	1678	1902	1423	1575	1623	1842	1683	1886.9	1952.2	2104	1900
Pension, average for KR (som per month)	558	561	658	579	564	602	612	631	665	669	657	
Exchange rate (som\$, end of period)	48	46	44	48	46	46	46	46	41	43	44	43
Exchange rate (som\$, avg of period)	48	47	44	48	48	46	46	46	43	43	43	43
REER (end of period, 1997=100, up=depreciation)	107	109	115	109	107	108	109	110	105	111	115	117
RER of som/US\$ (end of period, 1997=100, up=depreciation)	160	154	143	160	156	155	154	152	137	146	143	142
M2 (e.o.p as percent of GDP)	11.1	14.6	17.6	11.6	11.7	13.1	14.6	13.8	14.3	15.4	17.6	16.4
External Sector												
Current account balance (% GDP)	-1.2	-1.7	-1.3	-0.8	0.1	-0.2	-0.8	0.6	-2.2	-0.3	0.5	-0.7
Exports (mn US\$, f.o.b.)	480	498	588	117	125	117	140	121	115	142	210	159.3
- Power	47	22	19	2	1	16	3	2	2	10	6	1.3
- Gold	227	163	260	45	46	30	42	54	46	68	92	67
- Other	207	313	310	69	78	71	95	66	67	64	112	91
Imports (mn US\$, c.i.f.)	472	587	716	135	132	151	170	126	168	193	230	197
- Food	44	64.0	78	13	16	16	19	16	19	20	23	21
- Other consumer goods	128	130	178	21	33	37	39	28	38	45	68	48
- Energy	121	152	180	45	27	35	45	31	40	46	63	60
- Other intermediate goods	121	125	152	29	29	31	36	25	38	42	47	42
- Capital goods	58	116	128	26	26	32	31	26	33	39	29	26
External Debt (mn US\$)	1678	1785	1,961	1,665	1,705	1,738	1,776	1,804	1,840	1,912	1,943	1,965
Public External Debt (mn US\$)	1436	1576	1,648	1,429	1,498	1,524	1,576	1,602	1,640	1,694	1,701	1,798
External Debt (% GDP)	110.0	111.1	103	103.7	106.2	108.2	110.6	94.5	96.4	100.2	101.8	94.5
Total debt service to exports of GS (%)	30.8	20.7	22	10.0	39.0	9.7	23.4	14.2	24.0	8.0	41.0	18.8
Public debt service to state revenues&grants (%)	27.7	23.3	15	11.6	50.7	9.8	19.3	19.1	17.8	10.7	17.7	9.4
Public external borrowing (excl. IMF, mn \$)	110	88	71	14	18	20	36	16	14	20	21	14
FDI (mn \$) ¹	5	5	46	5	-12	9	3	4	2	6	46	11
General Government Budget (percent of GDP)²												
Revenues and grants	20.4	22.7	22.9	4.6	5.2	6.1	6.8	4.3	5.9	6.1	6.7	5.0
Grants	0.8	1.1	0.6	0.3	0.0	0.3	0.4	0.0	0.1	0.4	0.1	0.2
Tax	12.4	13.9	14.3	2.8	3.3	3.8	4.1	2.7	3.4	3.9	4.3	3.1
Social fund contributions	4.0	4.2	3.4	0.8	0.8	1.0	1.0	0.8	0.8	0.9	0.9	0.9
Nontax and capital	3.2	3.5	4.6	0.7	1.1	1.0	1.3	0.8	1.5	0.9	1.4	0.7
Expenditures	26.2	27.9	27.5	5.8	6.9	7.1	8.5	5.6	7.3	7.0	7.7	5.9
Current (other than interest)	20.5	20.7	21.7	4.5	5.2	5.3	6.0	4.7	5.6	5.4	6.1	5.8
o.w. transfers & subsidies	8.2	9.4	8.7	2.1	2.2	2.2	2.6	1.7	2.2	2.1	2.7	1.8
wages & salaries	4.9	5.4	5.7	1.0	1.4	1.3	1.7	1.0	1.2	1.4	2.1	0.9
Interest payments	1.7	1.9	1.6	0.2	0.7	0.2	0.8	0.2	0.6	0.1	0.6	0.1
Capital	5.3	6.0	4.8	1.2	1.2	1.7	1.8	0.7	1.2	1.6	1.2	0.8
of which foreign financed PIP	4.4	4.7	3.6	1.0	1.0	1.4	1.3	0.6	1.0	1.3	0.7	0.7
Net lending	-1.1	-0.6	-0.5	-0.1	-0.2	-0.1	-0.2	-0.1	-0.1	-0.1	-0.2	-0.1
Fiscal Balance (accrual)	-5.8	-5.2	-4.6	-1.2	-1.6	-1.0	-1.6	-1.3	-1.4	-0.9	-1.0	-0.9
Memoranda												
Primary Deficit (wo interest and PIP)	0.2	1.4	0.6	0.0	0.0	0.6	0.5	-0.5	0.2	0.5	0.3	-0.1

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

¹ Includes repayment of FDI related debt² 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