

Kyrgyz Republic: Defining Major Macroeconomic Risks and Vulnerabilities

June, 2008

Bishkek



- 
- Recent Macroeconomic developments
 - Policy challenges



Macroeconomic Policy objectives

- Maintain economic growth
- Contain inflationary pressures
- Limit external vulnerability

Recent Performance

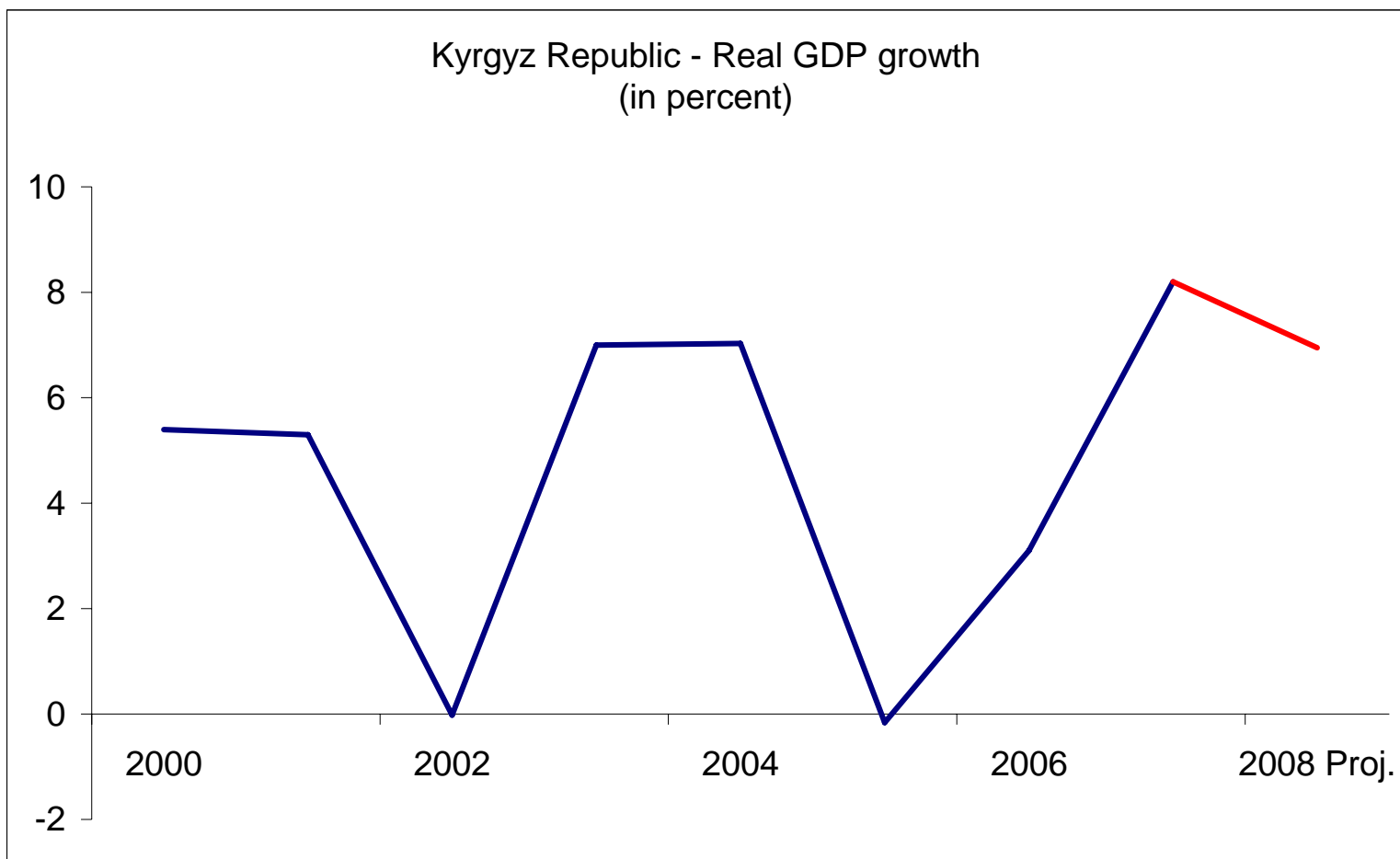
- Strong economic growth
- Inflation rising dramatically
- External Shocks
- High levels of external debt, but debt indicators improving rapidly
- Strong fiscal performance,
- Exchange rate pressures



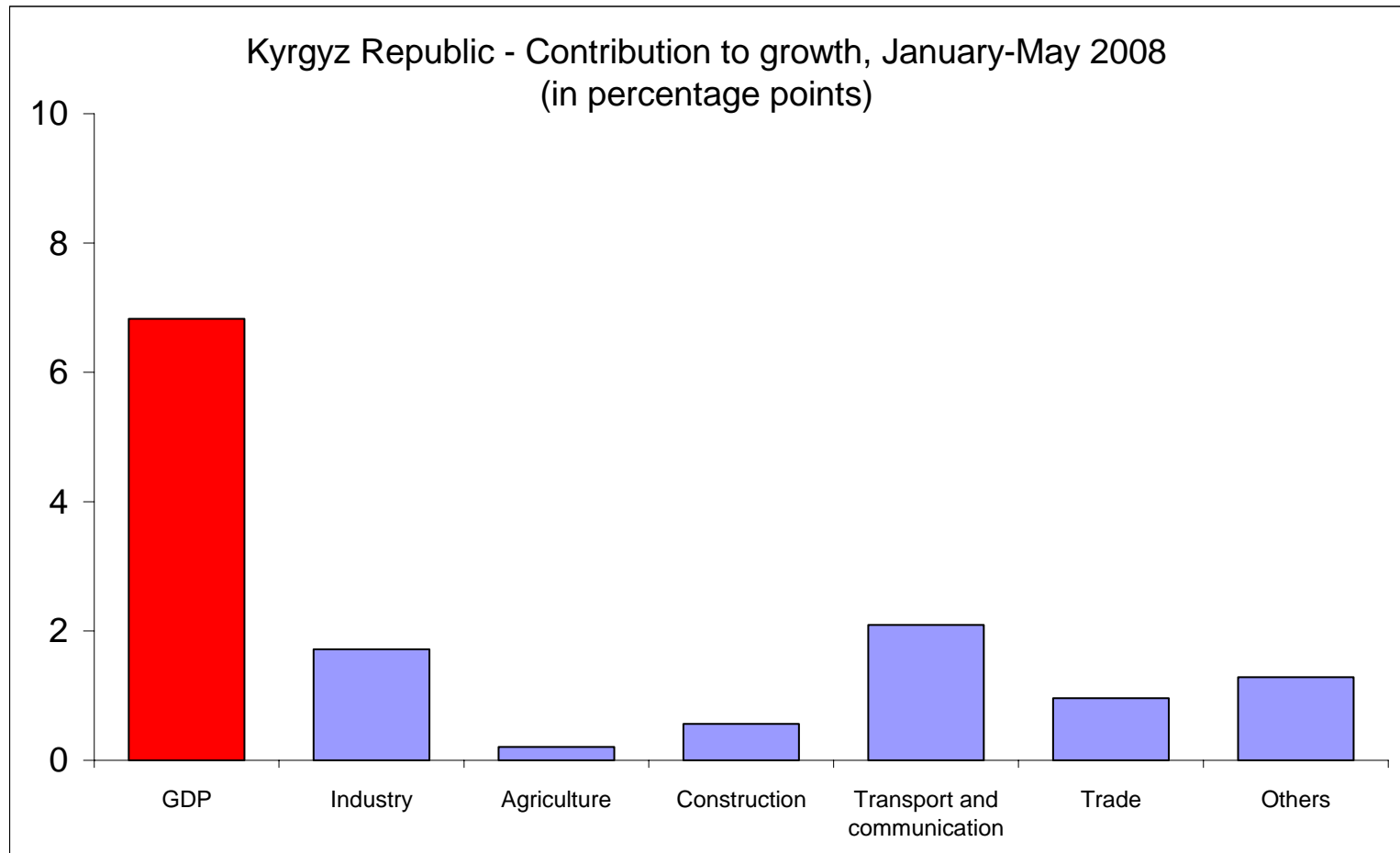
Emerging risks

- Inflationary expectations becoming embedded in wage and price setting
- Deteriorating current account
- Fiscal vulnerabilities
- Growth slowdown

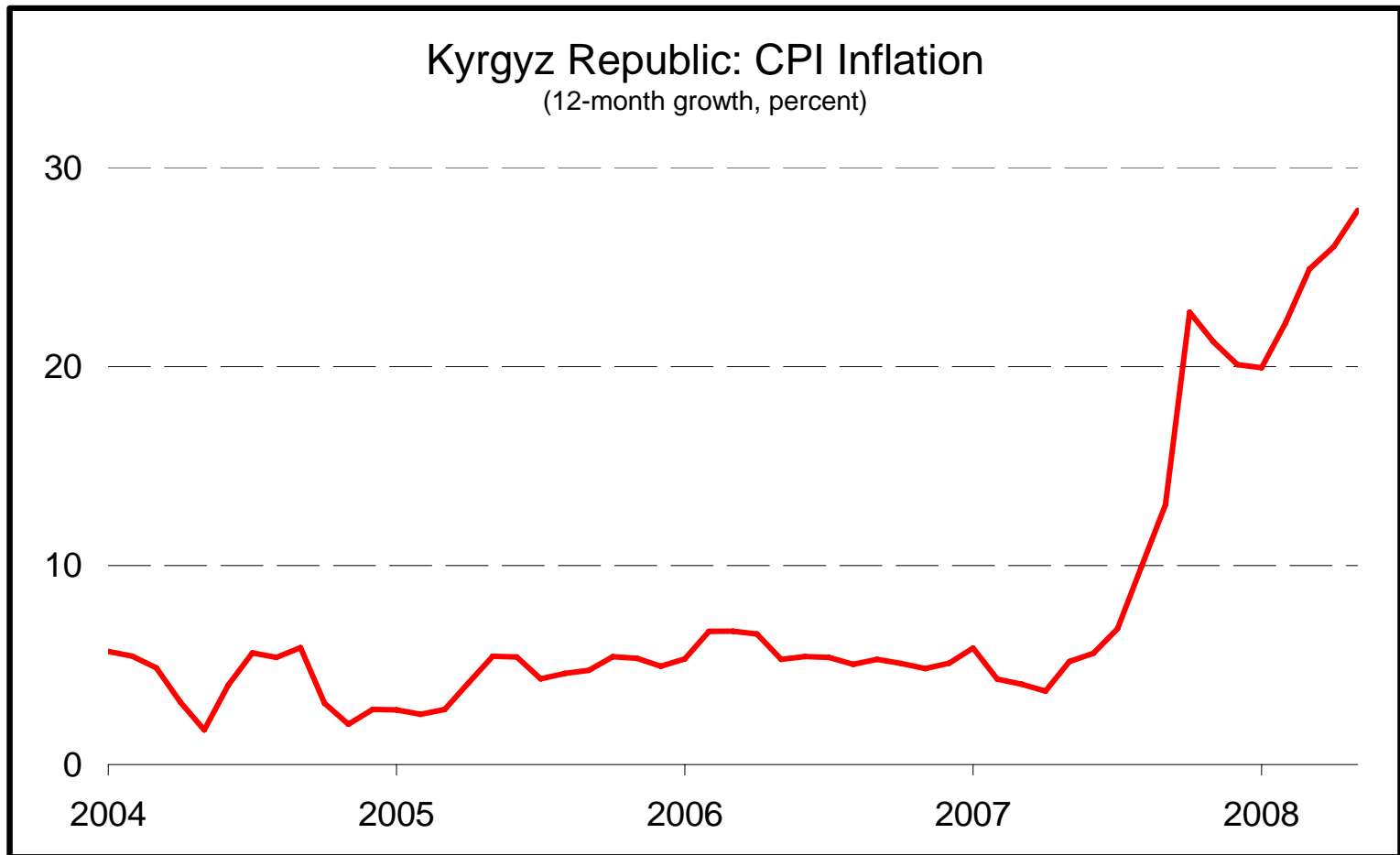
Economic Growth picked up in 2007.....



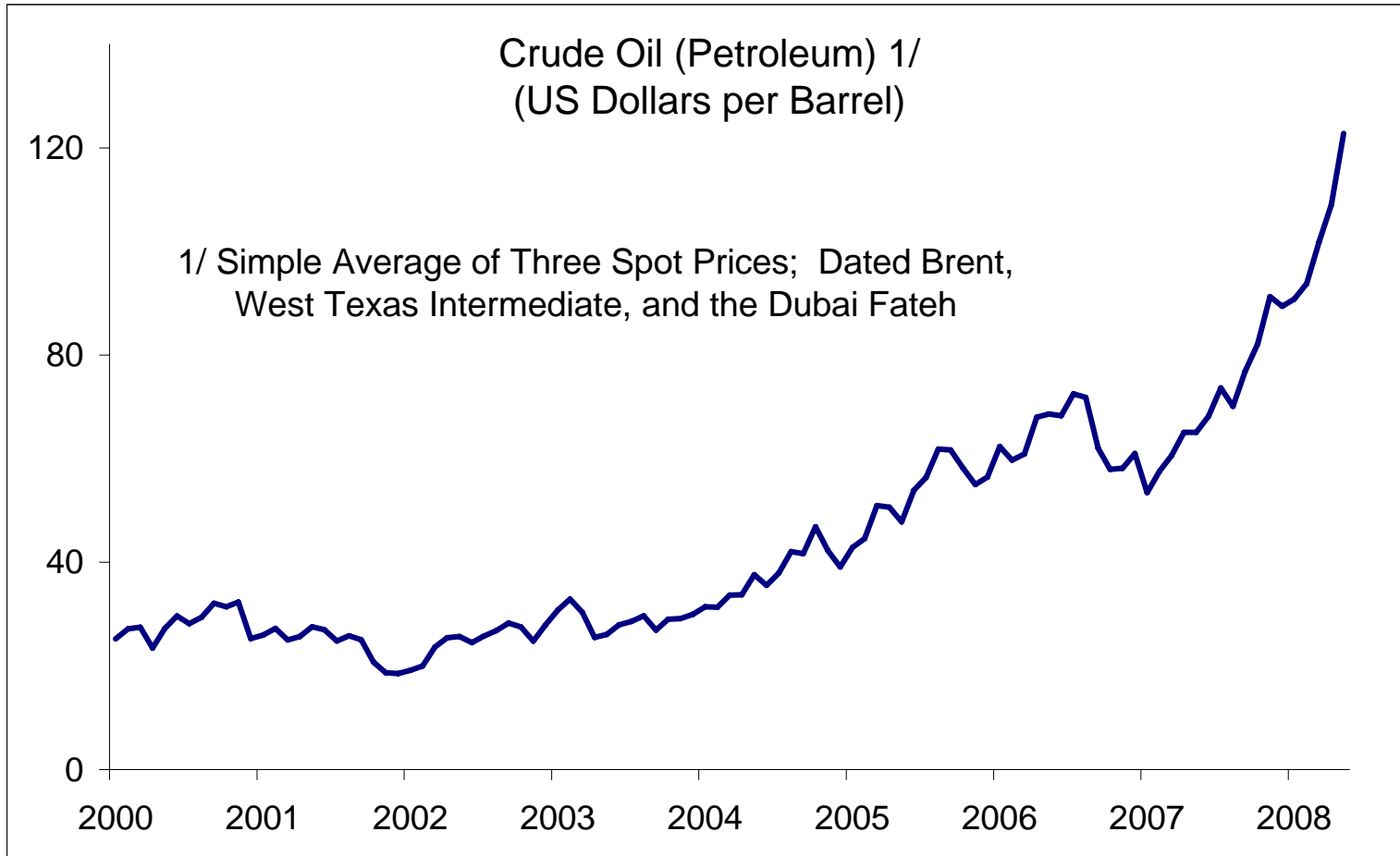
So far, 2008 slightly slower than projected.....



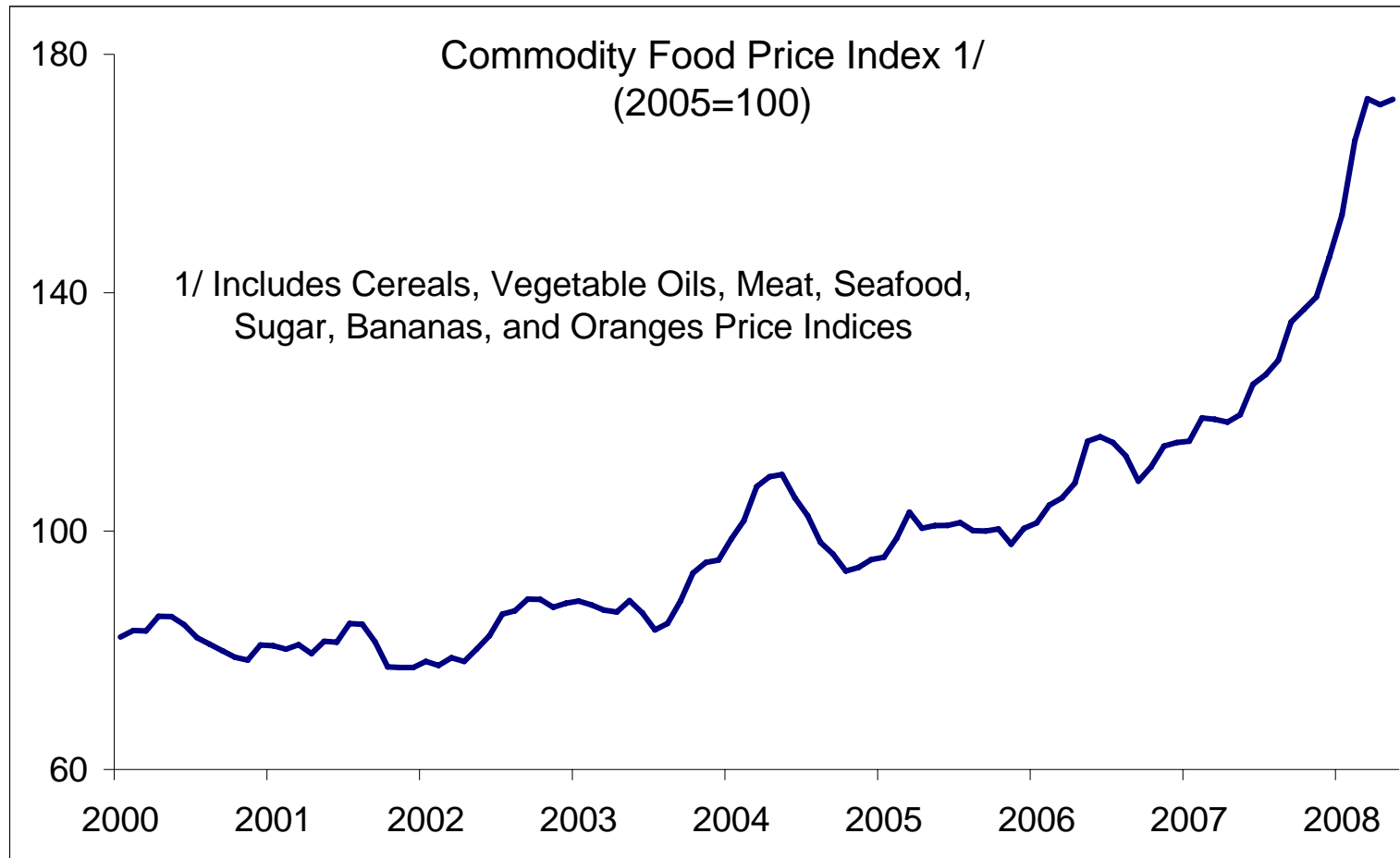
Inflation rose sharply since the summer of 2007



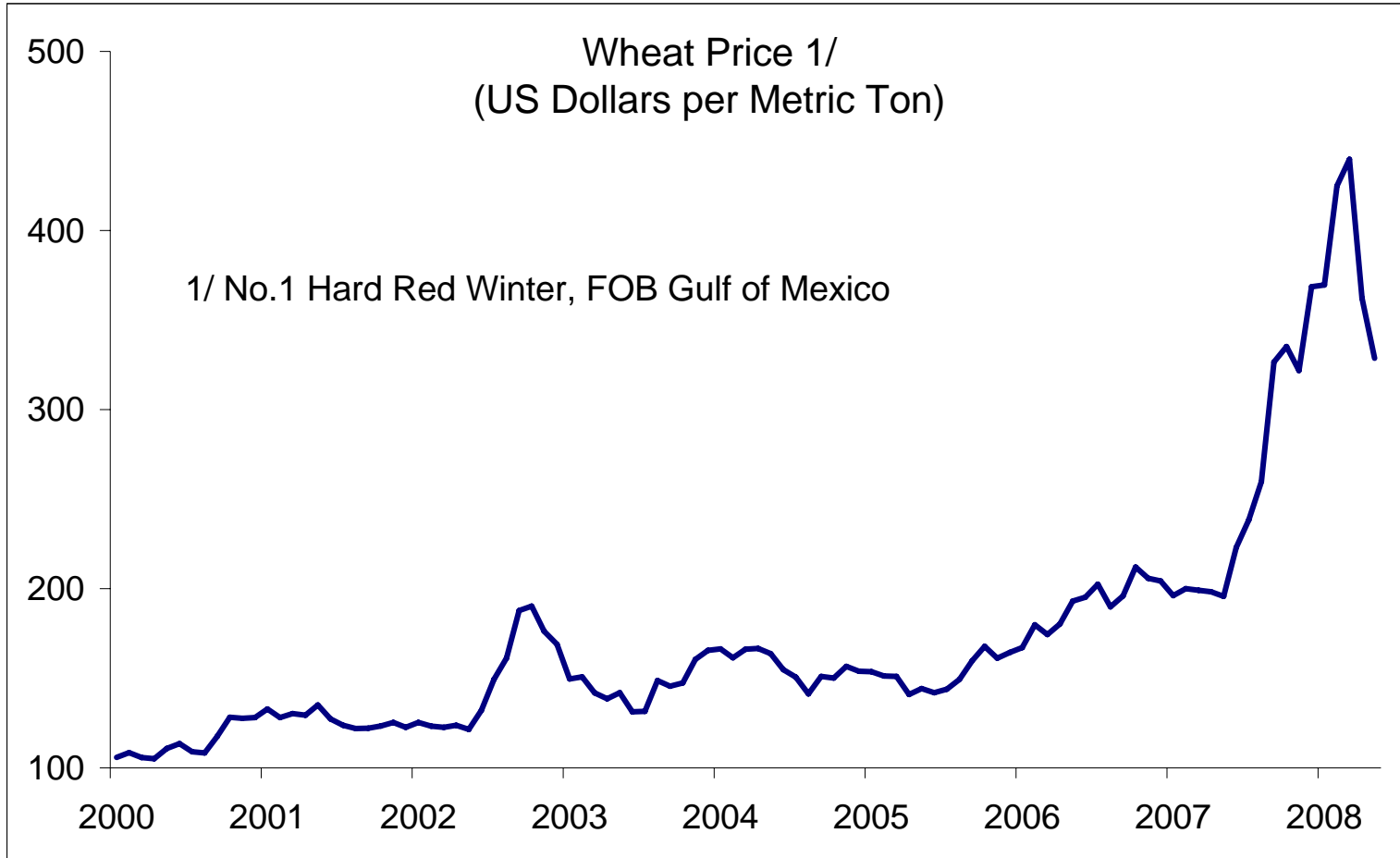
Since 2000, Energy prices have increased.....



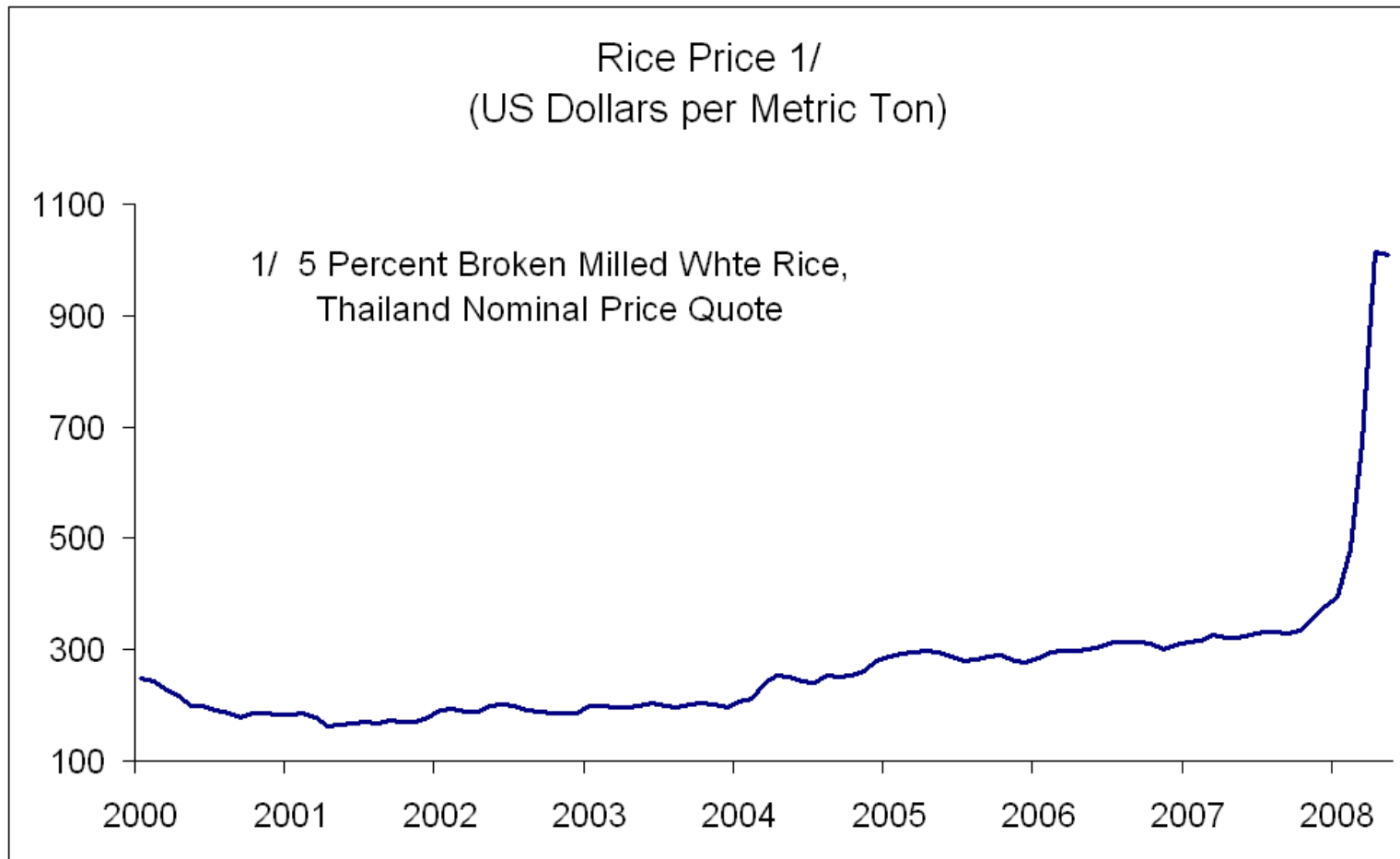
More, recently, Food prices increased sharply



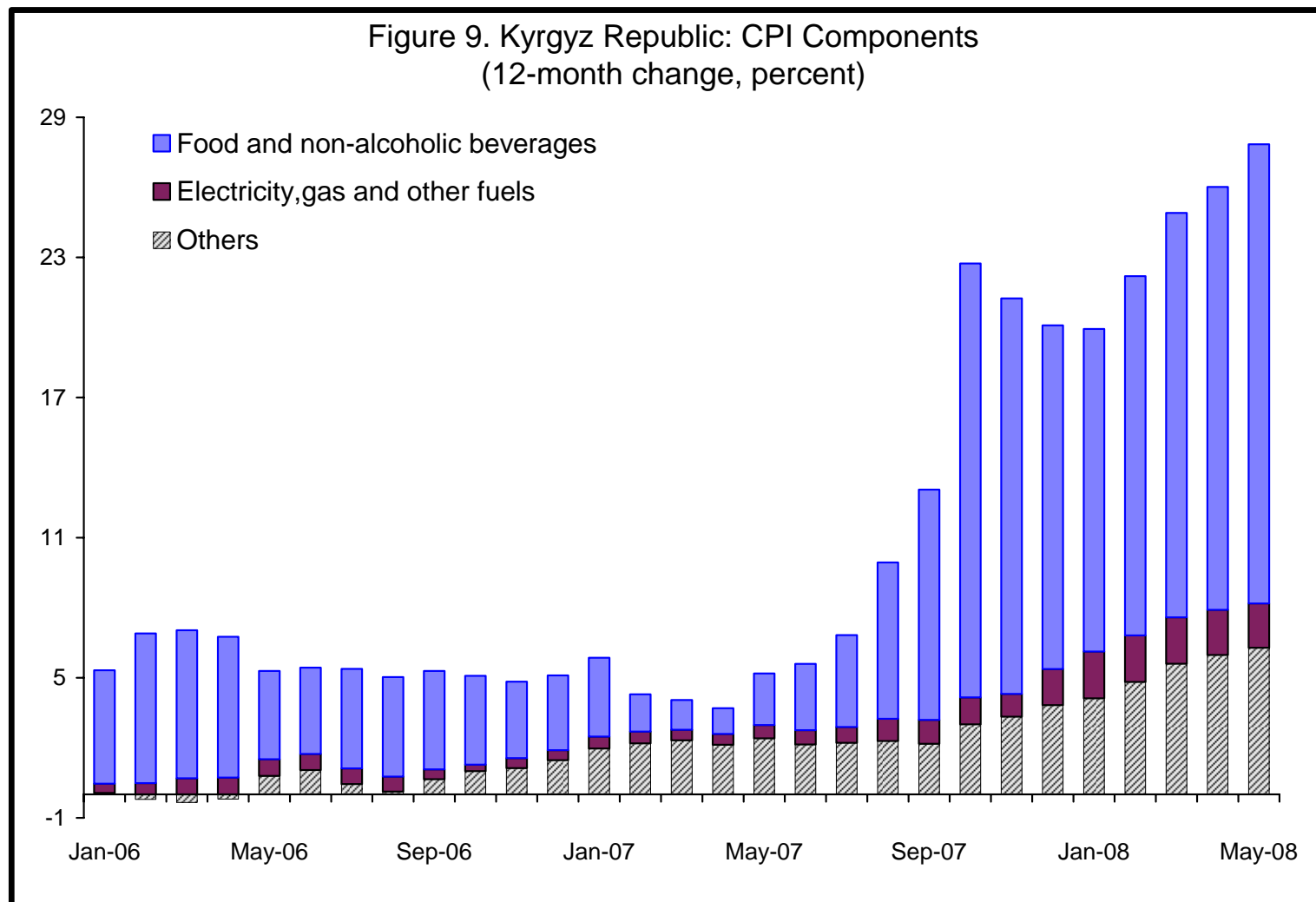
Especially wheat...



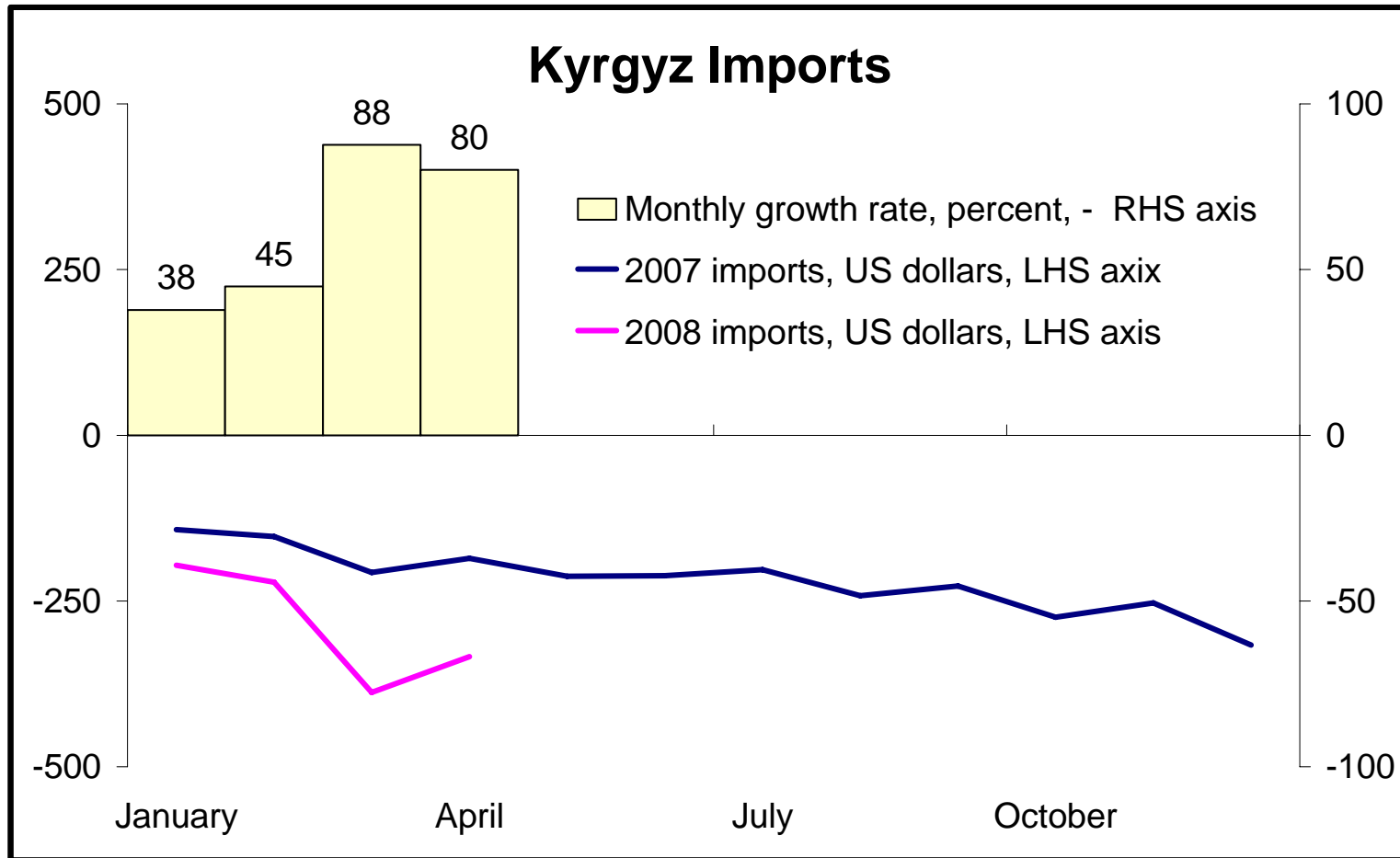
...and rice.



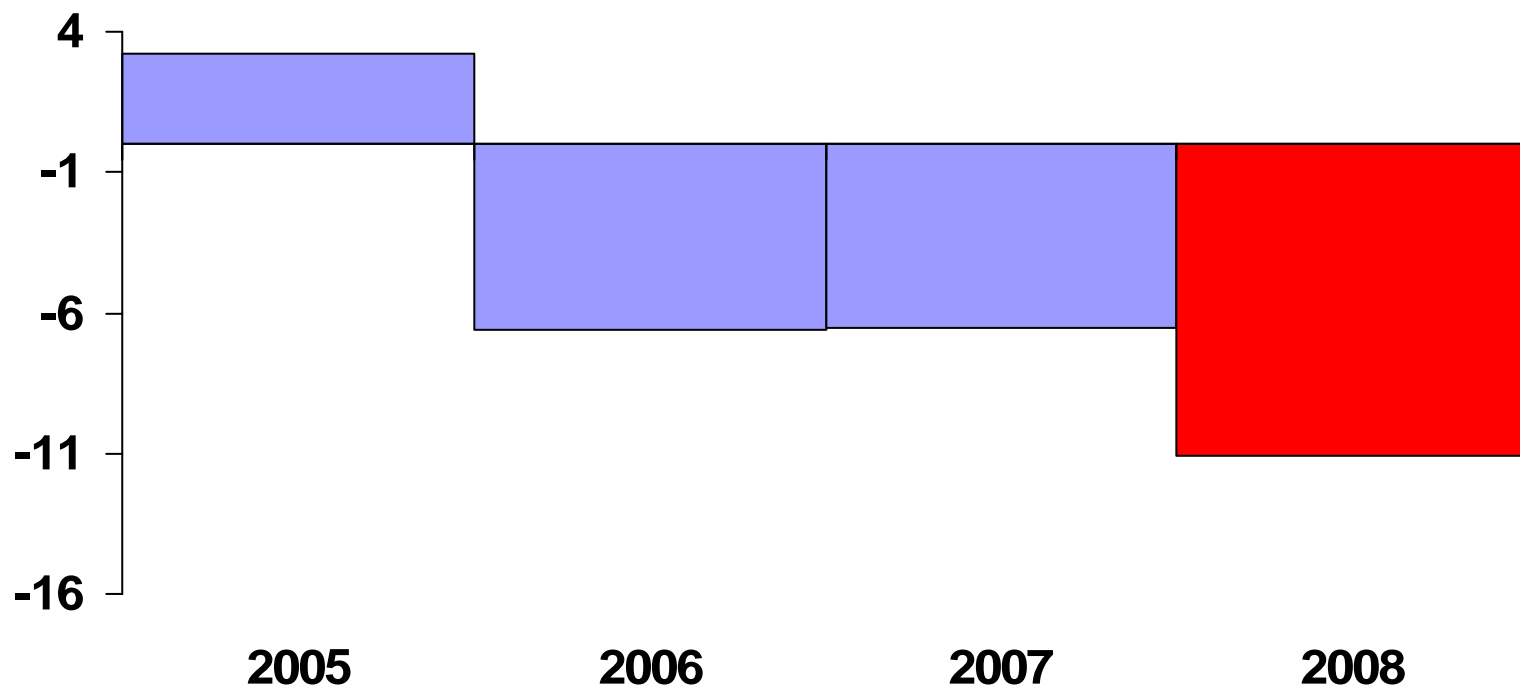
Food inflation – main driver of inflation....



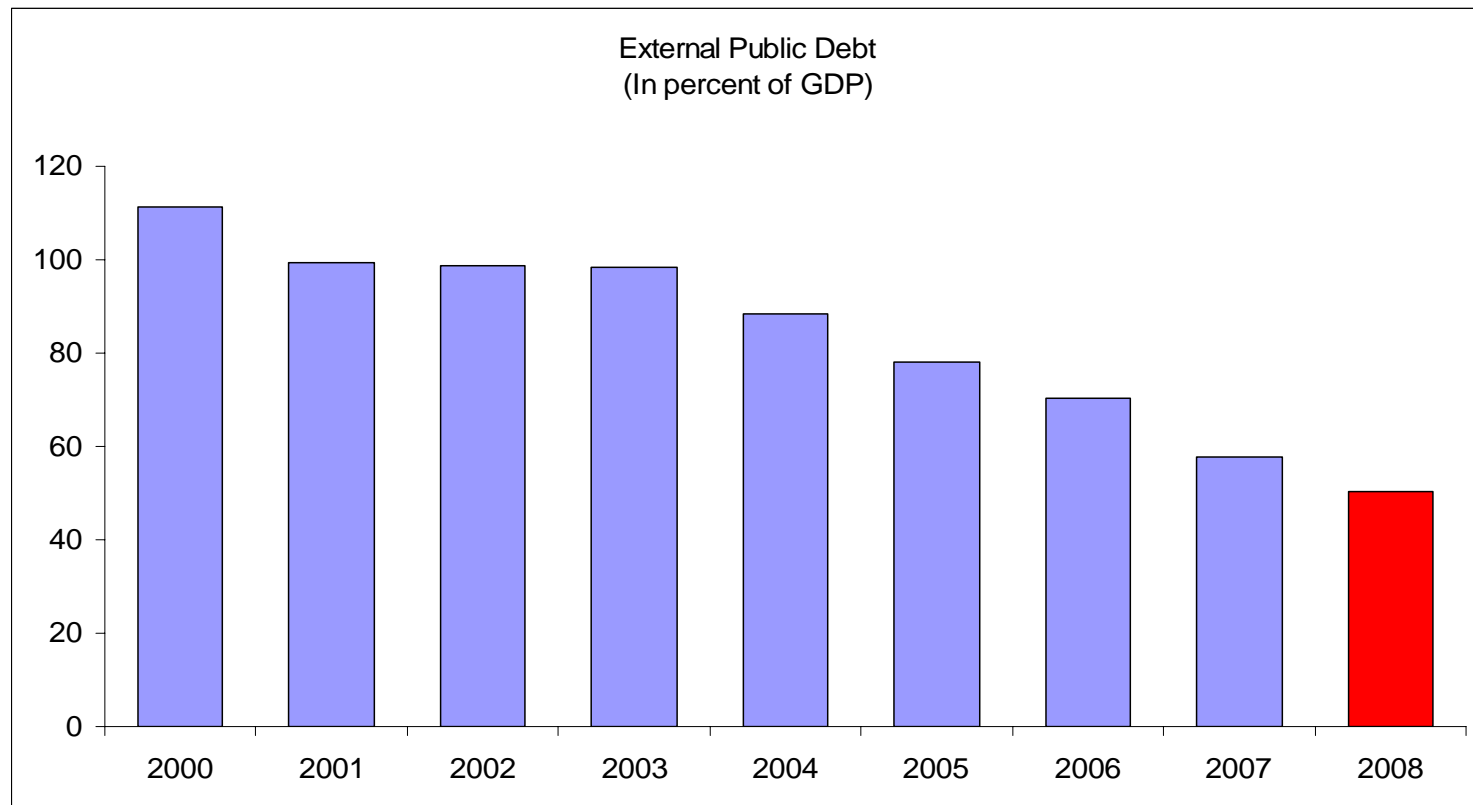
Higher food prices, more imports



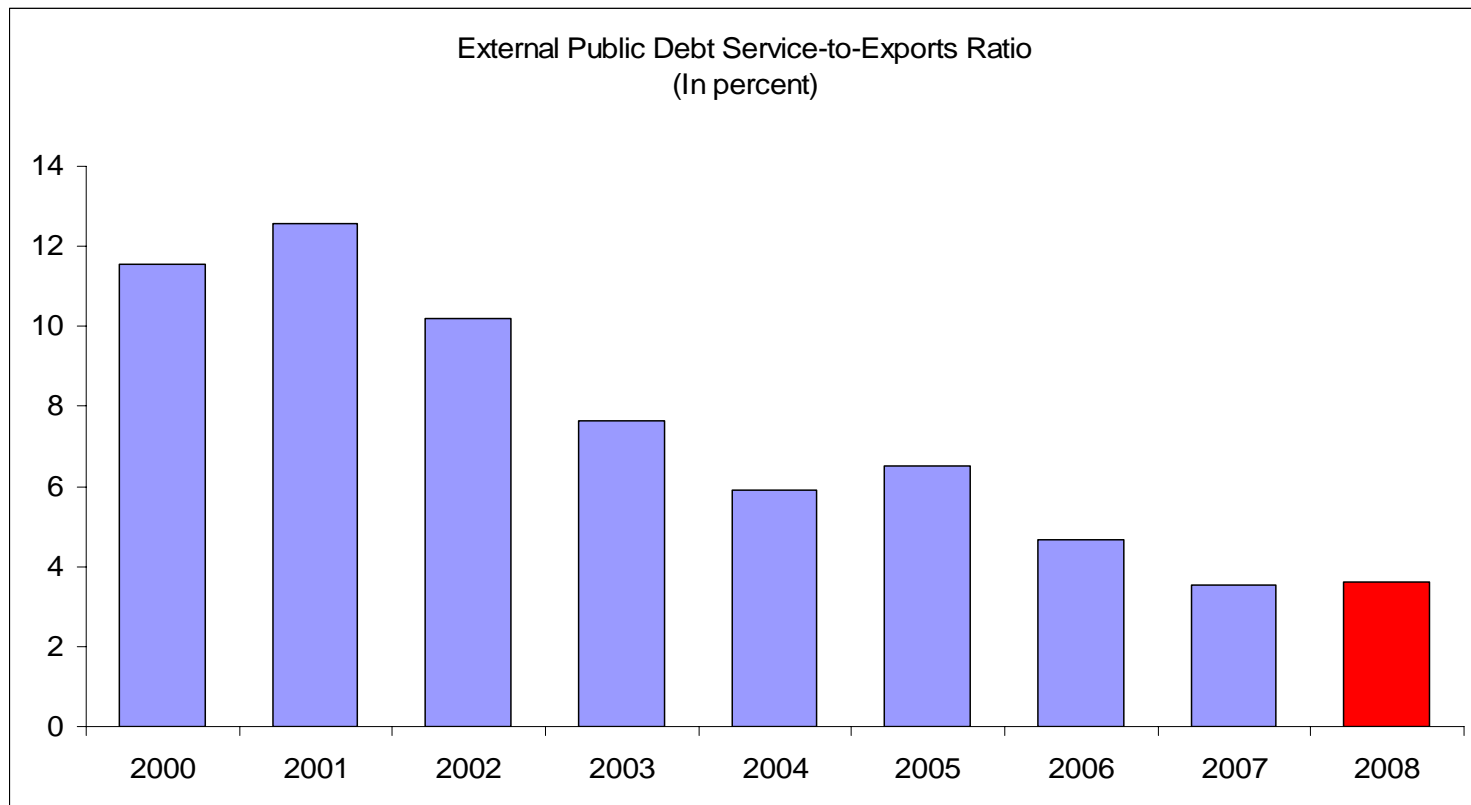
Current account likely to deteriorate (in percent of GDP)



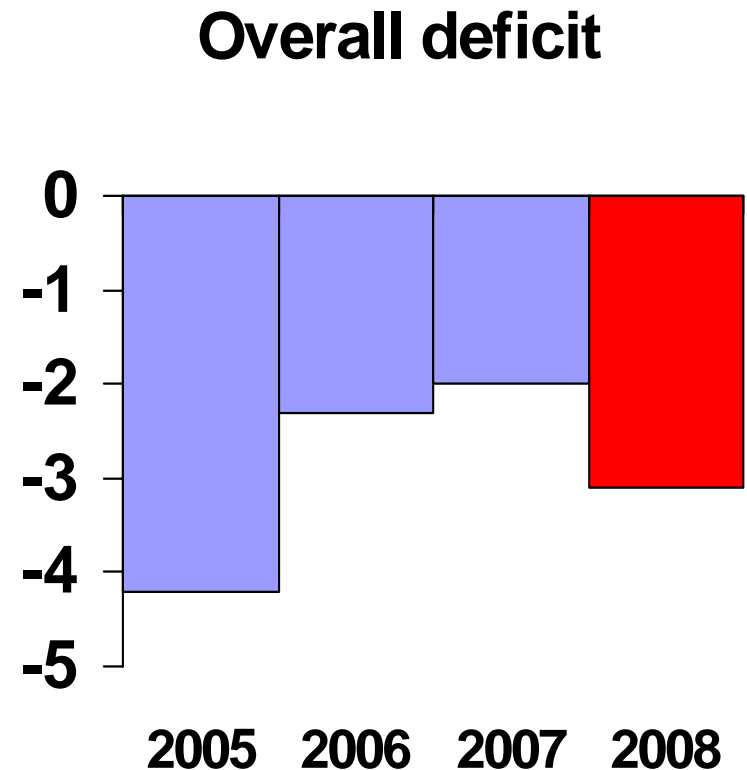
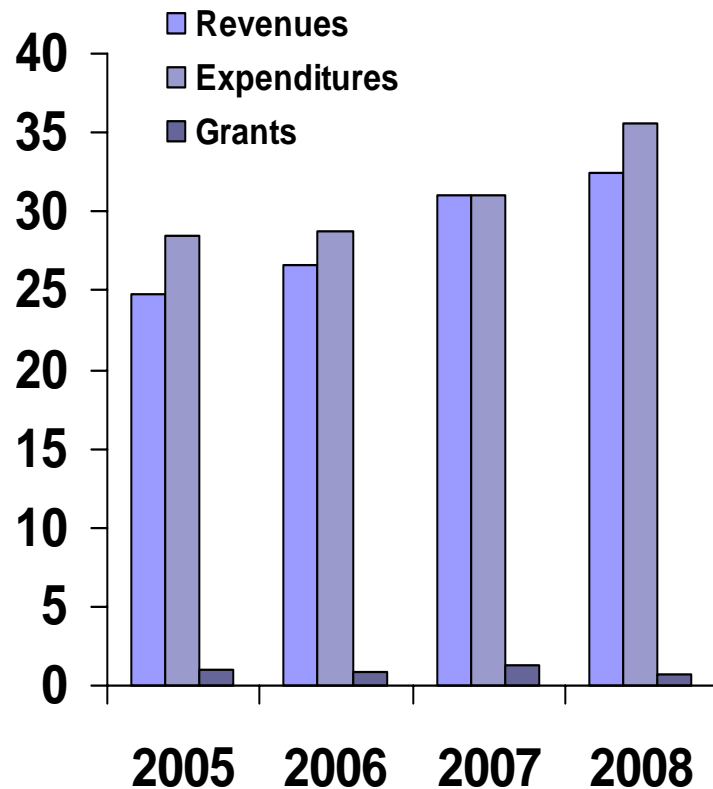
External indebtedness has eased considerably.....



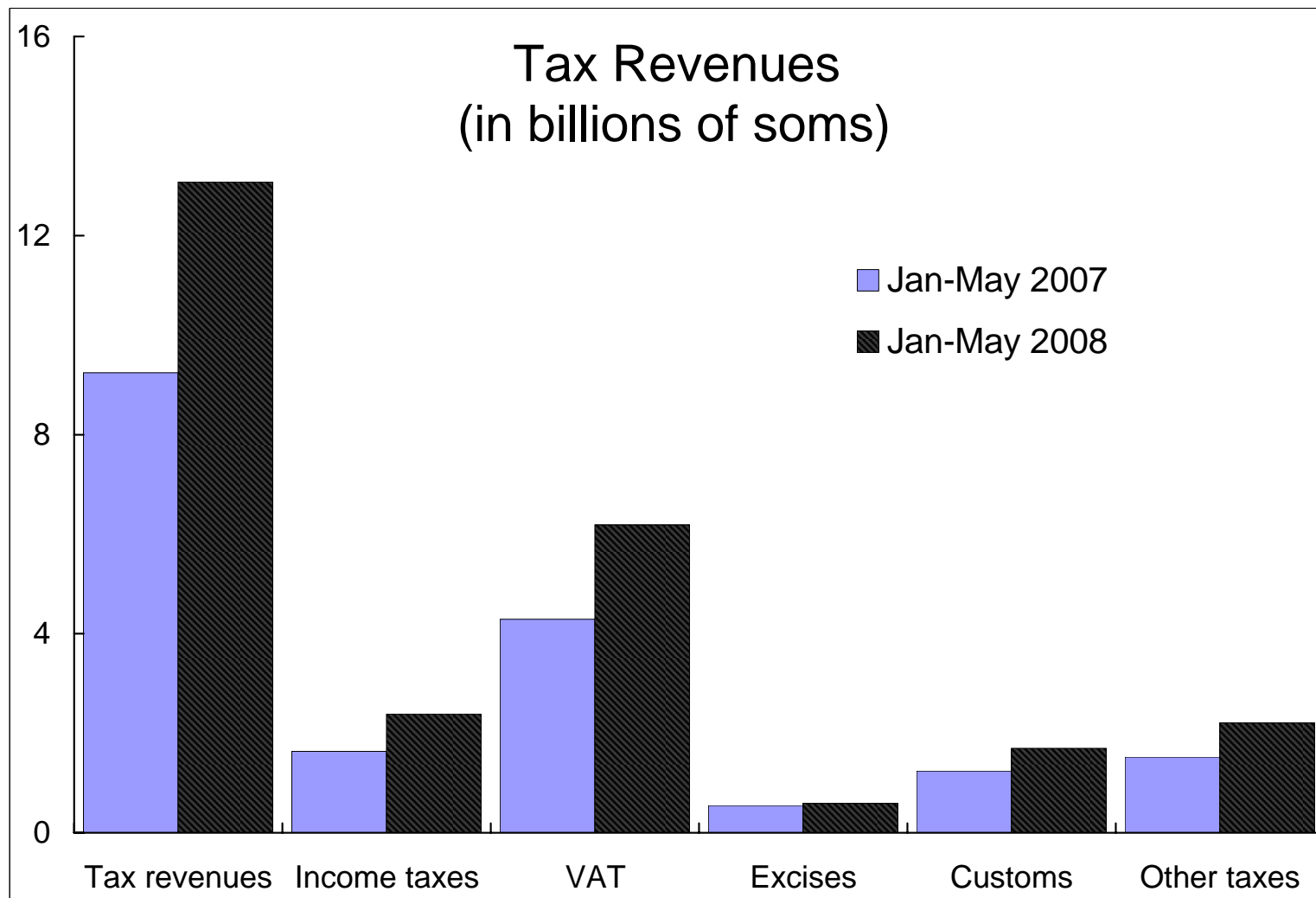
....while debt payments burden has fallen.



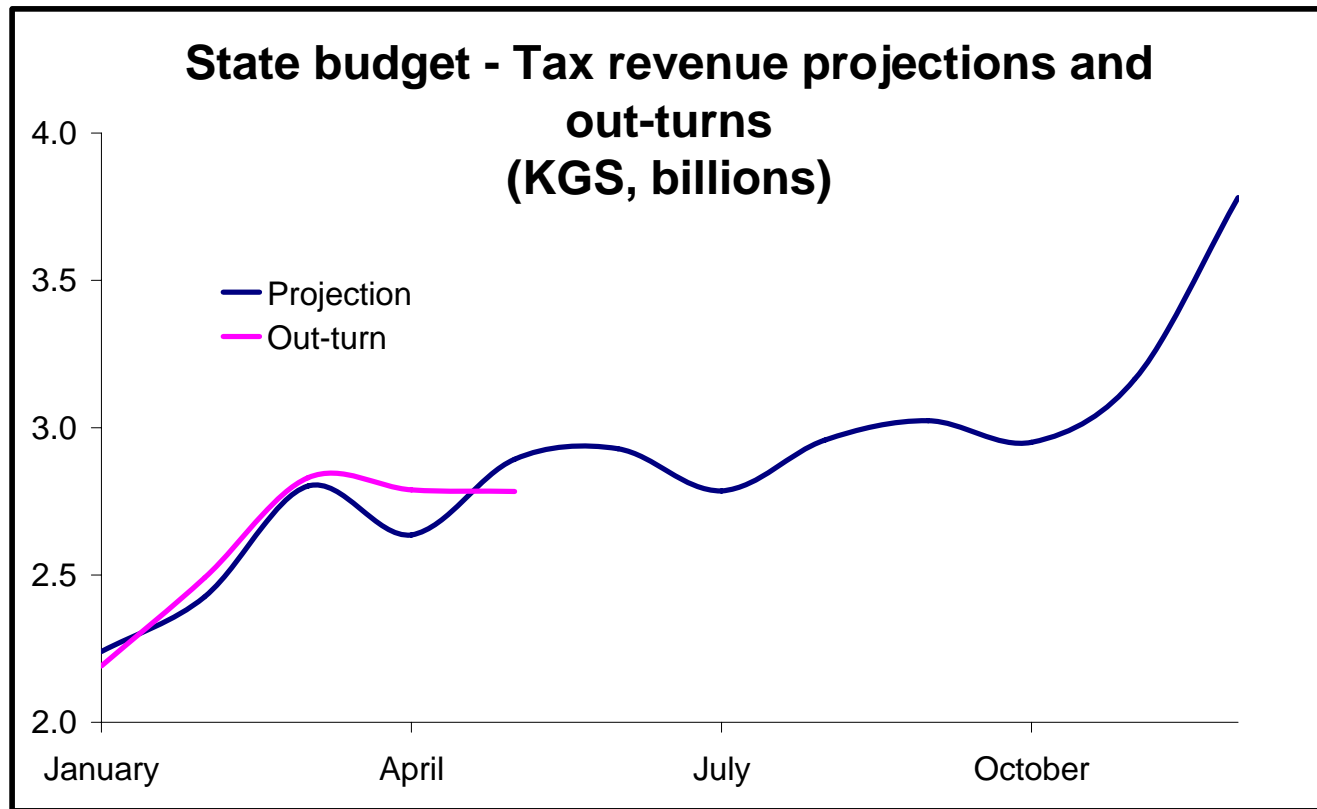
Improving fiscal policy, but larger deficit expected in 2008



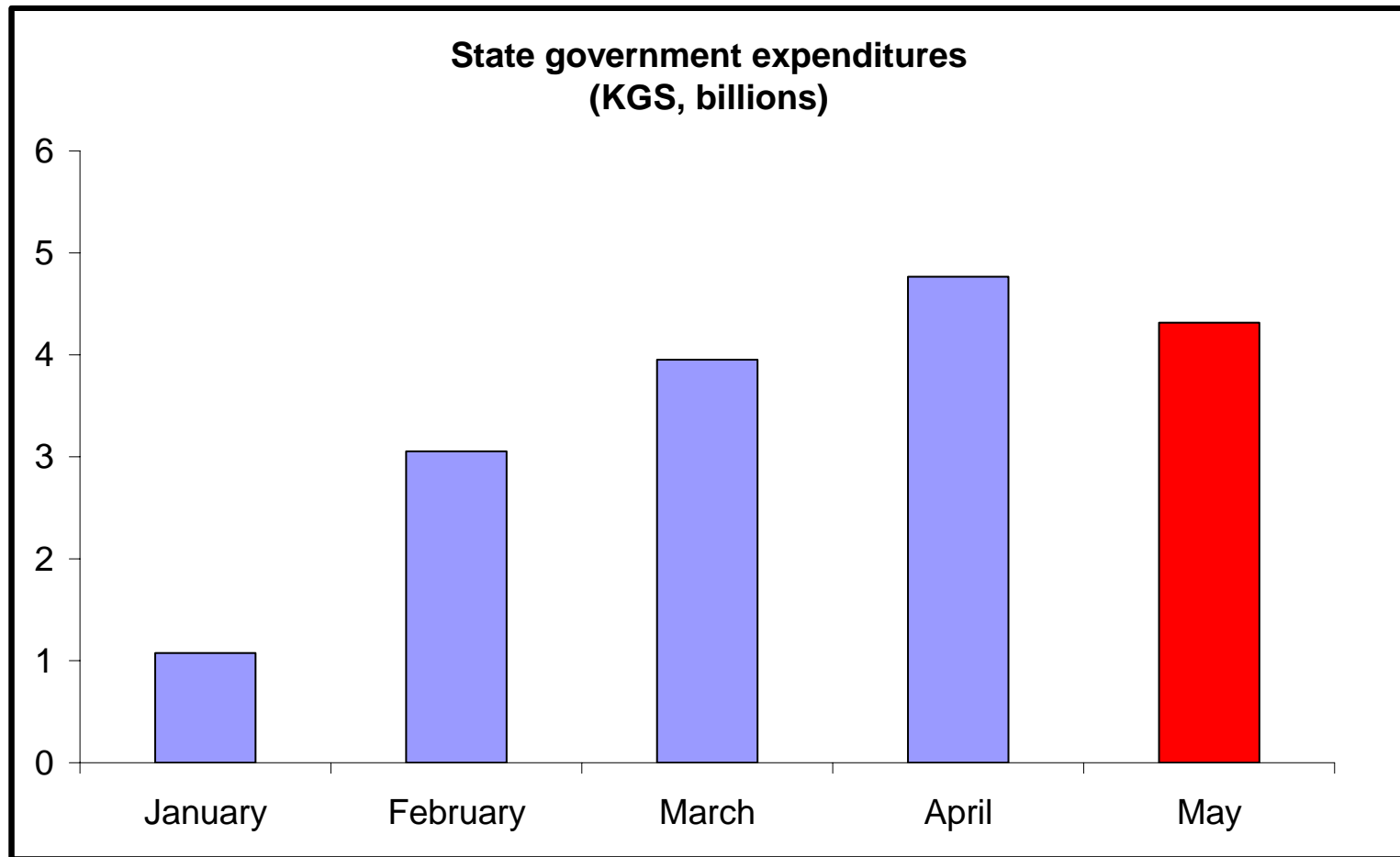
2008 tax target – 30 percent growth



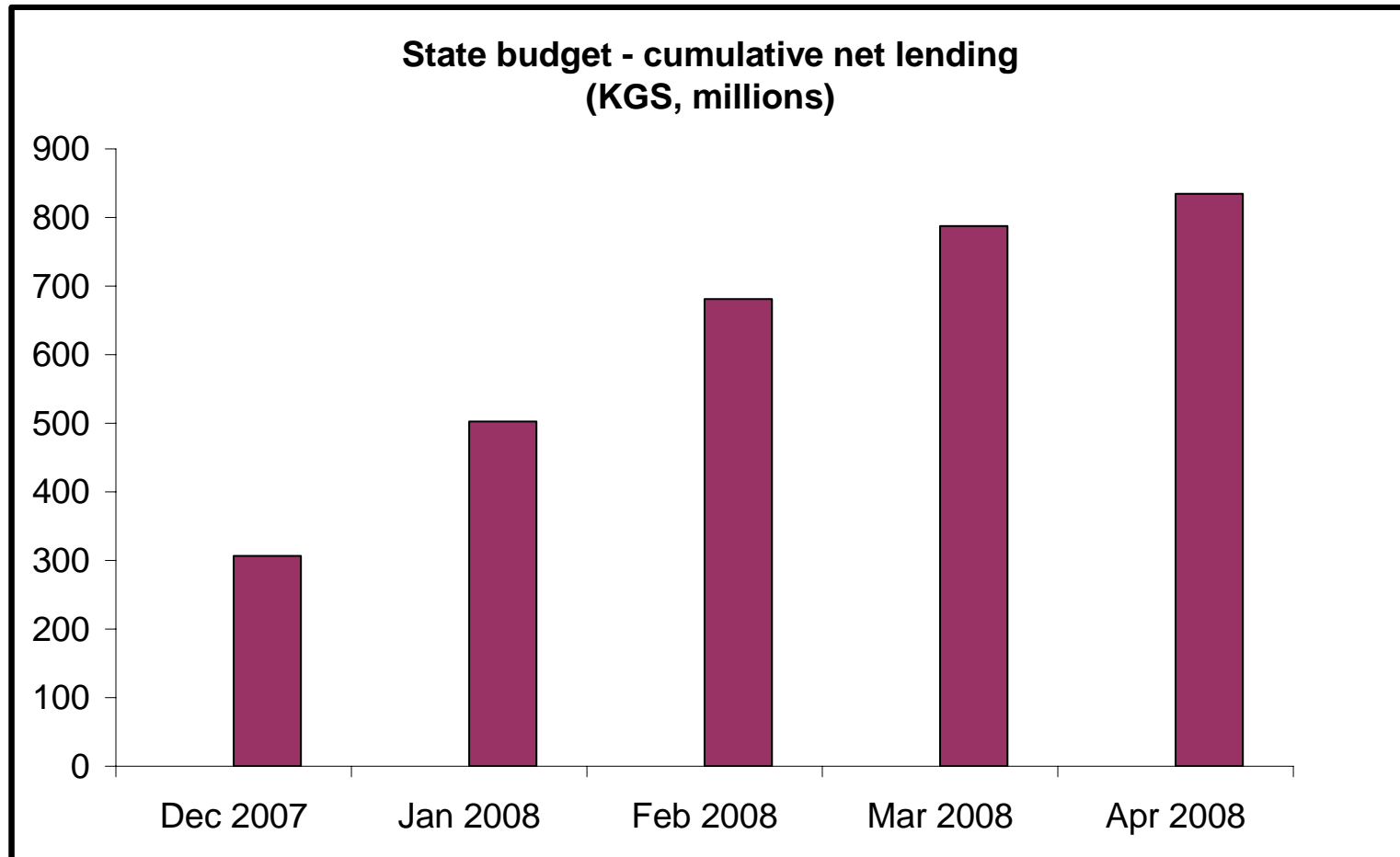
Some signs of collection weakness in May....



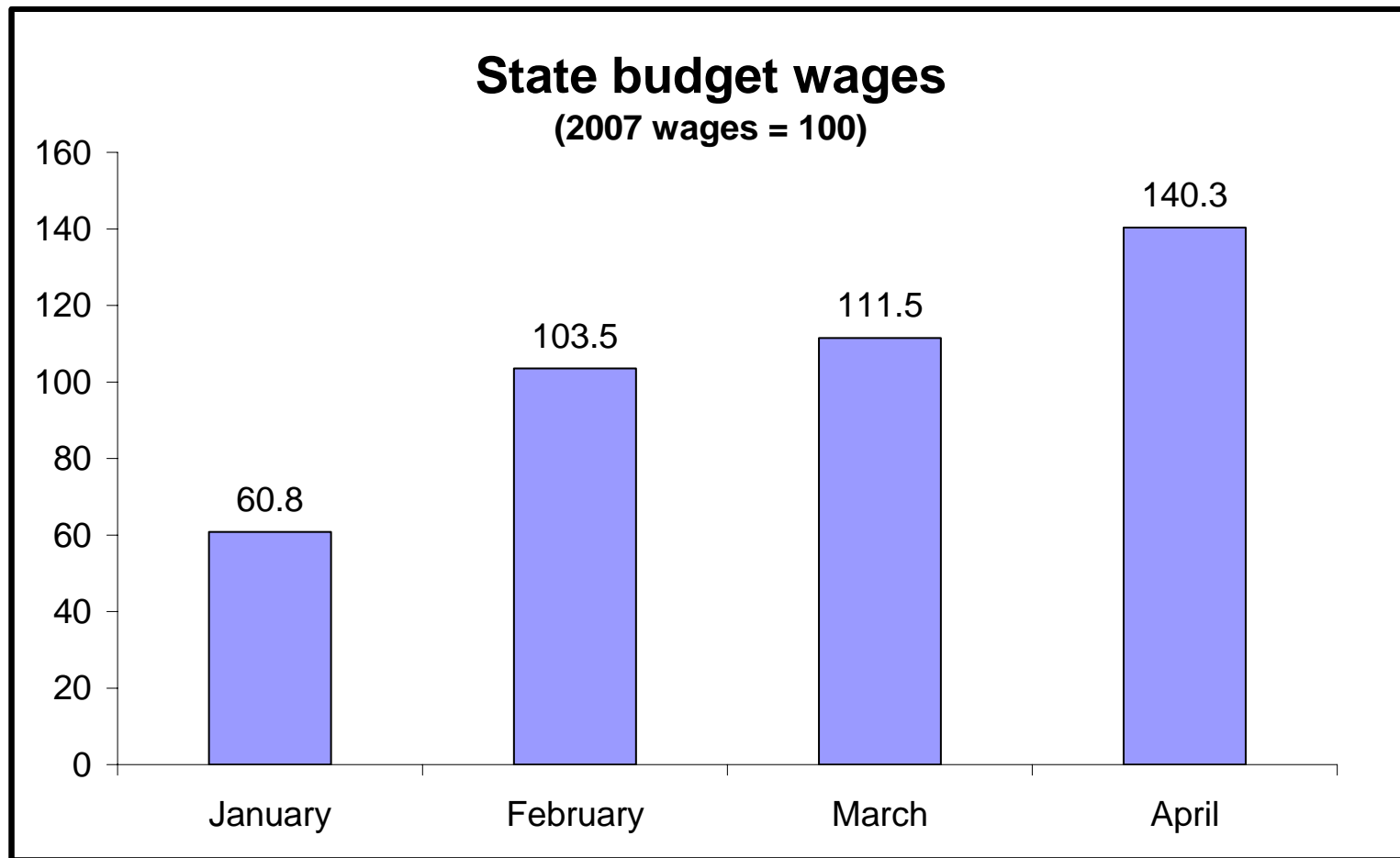
Monthly state budget expenditures growing rapidly....



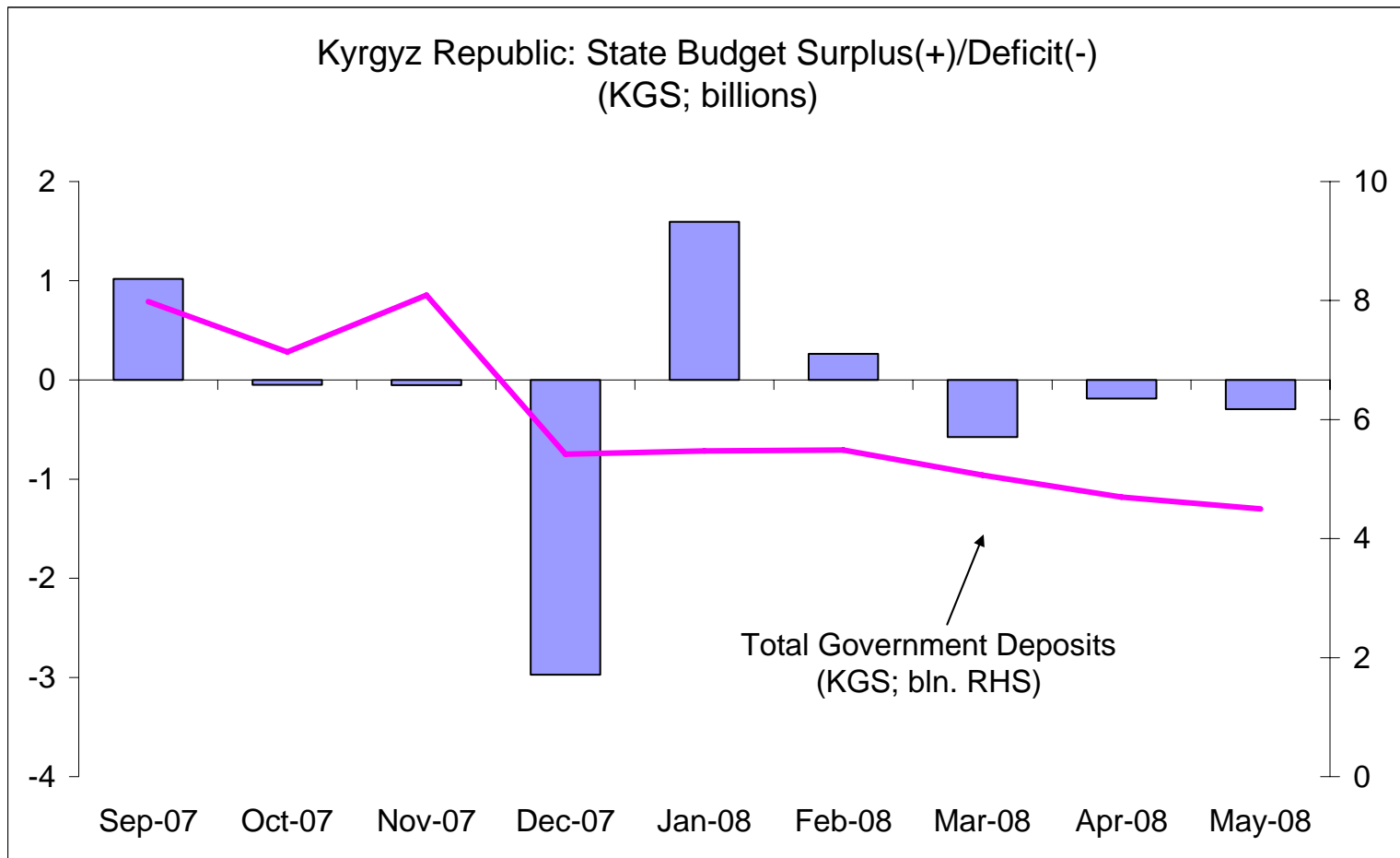
Significant government net lending over the winter months...



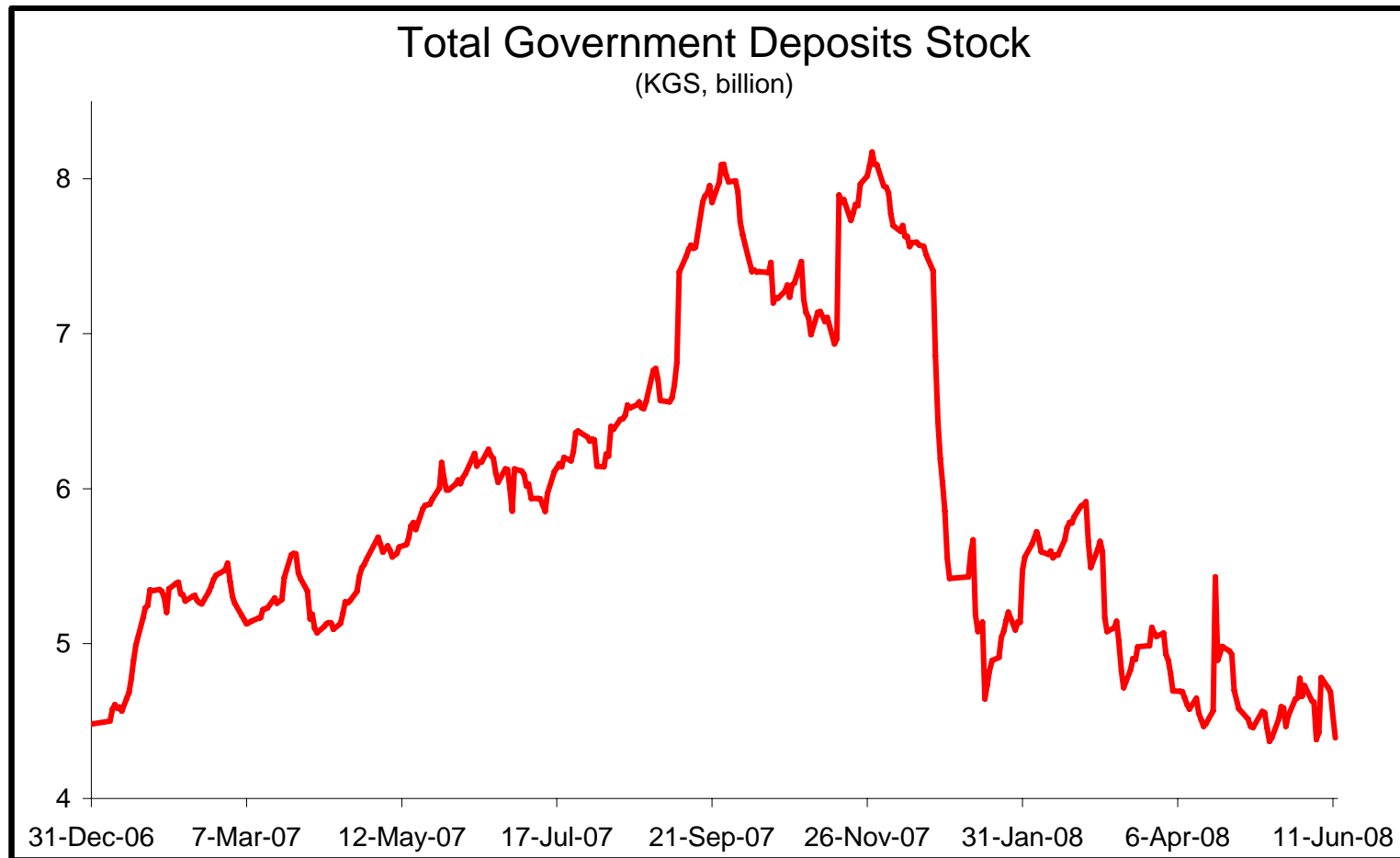
State sector wage bill increasing dramatically....



Deficits began back in October.



Fiscal “shock absorber” has been squeezed





Conclusion

Kyrgyz Republic made significant progress:

- Growth re-established
- Living standards increased
- Strong fiscal performance



However, major macro-risks are now evident

- Commodity shock larger and more persistent
- Surging inflation
- Current account deficit increasing.
- Fiscal vulnerabilities increasing
- Emergence of greater downside risks – growth slowdown.