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**ECONOMIC
REFORMS
IN
KYRGYZSTAN**

by

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Materials published in this series have a character of working papers which can be a subject of further publications in the future. The views and opinions expressed here reflect Authors' point of view and not necessary those of CASE .

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1. Introduction

It seems that in all likelihood Kyrgyzstan will become the next example (following the Baltic states) of successful economic transformation in the former USSR. The country's achievements in the stabilization and liberalization of the economy are impressive, and the majority of progress in this area has occurred in the first half of 1994. One may include Kyrgyzstan in the group of states that have adopted the radical variant of transition to market economics, a group to which the majority of Central European states and the above-mentioned Baltic states belong (Dąbrowski, 1994).

Kyrgyzstan has become a clear leader in economic transformation in Central Asia. Moreover, the progress in this area has been accompanied by a broad democratization of political life and an open, pro-Western orientation in foreign policy. These economic and political reforms represent the effect of the political course embarked upon in 1991 by the president of the republic, Askar Akayev. Thus far, they have made Kyrgyzstan an oasis of democracy and social peace in a region wracked by powerful ethnic and religious conflicts (e.g., Tadjikistan, Afghanistan) and whose political and economic regimes are of a significantly less liberal and democratic character and possess strong elements of the post-communist or even neo-communist order (e.g., Turkmenistan, Uzbekistan)¹.

2. General geographic characteristics

Kyrgyzstan (until 1991 the Kirghiz Soviet Socialist Republic) borders on China in the east, Kazakhstan in the north, Tadjikistan in the south, and Uzbekistan in the west. Kyrgyzstan covers an area of 198,500 square kilometers, most of which is mountainous terrain. The country has a population of ca. 4.5 million, of which about 35 percent is urban. The ethnic composition of the population is as follows: 52.4 percent Kyrgyz, 21.5 percent Russian, 12.9 percent Uzbek, and 2.5 percent Ukrainian, with additional German, Tatar, Kazakh, Dungan, Ulgur, and Chinese minorities.

Kyrgyzstan possesses deposits of mercury, lead, tin, zinc, uranium, antimony, rare earth metals, and black coal, as well as recently discovered deposits of gold and as yet unexplored deposits of oil and natural gas. Due to difficult terrain conditions, further geological exploration and possible exploitation of resources discovered in such exploration would require large foreign investments. Kyrgyzstan also possesses an enormous hydroelectric potential far exceeding the country's own needs.

In analyzing the course of the Kyrgyz reforms, one must remember that one is dealing with a country of small (by Asian standards) dimensions, with a low per capita GDP (ca. 300-500 U.S. dollars, according to various, differing estimates), with largely unproductive agriculture and even less productive industry, difficult terrain conditions (only seven percent of the country's territory is suitable for agricultural cultivation), an underdeveloped infrastructure, and natural resources which are not easily accessible.

¹Actually, the city of Osh in the south of the republic was the site of bloody conflicts in 1990 between Kyrgyz and Uzbek inhabitants; however, this was an isolated incident in the most recent history of Kyrgyzstan.

Kyrgyzstan has, however, a good chance to become the first country of the Commonwealth of Independent States (CIS) to attain economic success in spite of (or perhaps because of) the absence of significant stores of natural resources or developed branches of industry, possessing only the political will for rapid change.

3. The starting point of the reforms and the economic decline after the fall of the USSR

Kyrgyzstan was one of the poorest republics of the USSR and at the same time one of the most economically dependent on the center. The share of foreign trade (i.e., trade with areas outside the republic's borders) in the GDP was 45.61 percent in 1988: trade with other republics of the USSR represented 39.63 percent of GDP, and foreign trade proper (i.e., with countries outside the USSR) 5.98 percent (Selm and Wagener [1993], table 1). This relatively high share of interrepublican trade in GDP was the result of central planning decisions, which in an administrative fashion assigned to this republic (as to all other regions of the USSR) particular production specializations, which included, in the case of Kyrgyzstan, the raising of sheep and production of wool, the cultivation of low quality grades of cotton, and the production of electrical energy in hydroelectric plants and of certain components for the defense industry. An extreme example of this specialization, with its roots in the USSR's foreign commitments, was the refining and packing of sugar, imported in massive quantities from Cuba, the majority of which was subsequently sold to the other republics. Abnormalities of this sort must be taken into consideration in evaluating the decline in production beginning in 1991 (especially when measured in gross terms), and in the evaluation of changes in the amount and structure (both with respect to geography and assortment) of Kyrgyzstan's foreign trade.

The fall of the USSR and the far-reaching structural changes in the economies of the post-Soviet states (caused by, among other factors, rapid demilitarization and the massive decline in centrally financed investments) meant the collapse of the traditional markets of many Kyrgyz enterprises, especially in the defense and machine industries (but also in the above-mentioned sugar industry). This process was intensified additionally by the spontaneous erection of various types of trade barriers between the former republics of the USSR. This meant not only the loss of potential markets but also the growth of transaction costs and trade risks associated with, among other factors, the poor functioning of trade account settlements systems and the inflation raging in the ruble area (Wagener and Selm [1993]). Unfortunately, these barriers, caused by the continuing application of methods characteristic in shortage economies, restricted the importation of goods necessary for Kyrgyz enterprises as well. This is not, however, the end of the list of negative consequences of the fall of the USSR.

The economy of Kyrgyzstan, as in the case of the majority of the post-Soviet states (with the exception of Russia and, perhaps, Turkmenistan and Kazakhstan), was forced to absorb a huge price shock due to the gradual normalization of prices of imported raw materials, including energy resources. This led to a significant worsening of the terms of trade, which probably fell by ca. 50 percent in the years 1991-1993². In this manner, the indirect subsidies which had been associated with the artificial structure of administered prices in the USSR were eliminated. Moreover, enterprises existing on Kyrgyz territory and belonging to all-Union branch ministries had formerly obtained various direct (e.g., new

²This is a very rough estimate, based on fragmentary IMF data and the authors' own calculations.

investments) and indirect (through the subsidization of credit) subsidies. Finally, the republic's budget had regularly received transfers from the all-Union state budget. In 1991 these transfers had represented 12.2 percent of the Kyrgyz GDP and 35.2 percent of the revenues of the consolidated budget (IMF [1993a]).

All of these transfer mechanisms led to a significant flow of national income from the "wealthy" republics (primarily Russia, but also the Ukraine and Belarus) to the "poor" ones. According to the estimates of G. van Selm and E. Dölle (1993), in the Kyrgyz case these transfers generally represented over 10 percent of national income produced for the period 1966-1991 (with the exception of 1983-1985) and, beginning in 1988, over 20 percent of national income produced (in 1989 this ratio reached its apogee at a level of 28.6 percent). Estimating the balance of trade in interrepublican turnover using world prices, the same authors found that Kyrgyzstan received capital transfers representing 15.28 percent of GDP in 1988. According to our estimates about a half of this was in the form of price subsidies.

External financing by Russia was continued to a certain degree in 1992 and the first half of 1993, although to a more limited extent than in the Soviet era. Direct transfers to the republic's budget and subsidies of Kyrgyz enterprises from the earlier all-Union budget were discontinued. Two channels of financial support remained, however: the financing of the current account deficit by the Central Bank of Russia (CBR) and the subsidization of the prices of several essential raw materials.

The first-mentioned source of financing was a consequence of the specific mechanism by which the ruble area functioned: 15 independent central banks were emitting the same currency - the ruble - in non-cash transactions (see Dąbrowski [1993], Hernandez-Cata [1993], Granville and Lushin [1993]). This meant that in the first half of 1993 trade deficits were financed automatically. Later, when the CBR introduced a series of restrictions leading to the monitoring by the CBR of bilateral correspondence accounts (i.e., a de facto system of bilateral clearing), this financing ceased to have an automatic character. Nevertheless, the Russian authorities conducted a sufficiently "liberal" policy in this area until the end of the second quarter of 1993, providing CIS member states with significant technical credits, supplying them with cash rubles and accepting overdrafts on correspondence accounts. The negative balance of correspondence accounts (including cash deliveries) in the Kyrgyz case amounted to 39.4 billion rubles in 1992, i.e., 0.15 percent of the Russian GDP (Granville and Lushin [1993]) and 19.6 percent of Kyrgyz GDP. Andrei Illarionov (1993) estimates this aid at 22.6 percent of Kyrgyz GDP in 1992, and 23.9 percent for the first half of 1993. According to IMF estimates (1994a, table 2) the position of the correspondence account of the National Bank of Kyrgyzstan (NBK) with the CBR at the end of 1992 was 42 billion rubles, or 22.9 percent of Kyrgyz GDP, and including cash ruble deliveries, -20 billion rubles, or 10.9 percent of GDP. According to the same source (IMF [1994a, table 3]), the indebtedness of Kyrgyzstan had grown by 14 billion rubles in the first half of 1993, to reach a level of 56 billion rubles.

In accordance with an intergovernmental agreement, the negative balance of the correspondence account was converted into official Kyrgyz state debt to Russia in the amount of 115 billion U.S. dollars, with a payment period of 7.5 years, a 1.5 year waiting period and interest rate of LIBOR+1. At the same time Kyrgyzstan received additional credit in the amount of 30 billion rubles in the second half of 1993, with a payment period of 5.5 years, a half-year waiting period and an interest rate of LIBOR+1 (IMF [1994a, table

4]). As a result, at the end of 1993 the total indebtedness of Kyrgyzstan to Russia amounted to 147 billion U.S. dollars, or 7.1 percent of Kyrgyz GDP for 1993.

Despite certain differences, the above data, cited from different sources, present a similar picture. Until the end of the first half of 1993 (that is, until the liquidation of the so-called technical credits within the ruble area) Kyrgyzstan was essentially constantly financed by Russia, although to a significantly lower degree than Tadzhikistan (90.7 percent of GDP in 1992), Uzbekistan (69.9 percent of GDP), Turkmenistan (53.3 percent of GDP), Georgia (51.5 percent of GDP), and Armenia (49 percent of GDP) (IMF [1994a, table 2]).

As regards implicit price subsidies, according to IMF estimates based on Russian government data, these amounted to almost 2.4 trillion rubles in 1992. Taking into consideration the fact that Kyrgyzstan received 1.5 percent of Russian exports and was the source of 1.7 percent of Russian imports, the value of implicit price subsidies probably amounted to ca. 36 billion rubles, or 18 percent of Kyrgyz GDP (IMF [1993b, tables 27 and 42]). One may assume that Kyrgyzstan received similar subsidies - albeit on a significantly smaller scale - from Uzbekistan and Kazakhstan. In the second half of the year this form of external financing of the Kyrgyz economy also began to quickly disappear, resulting in a dramatic worsening of the terms of trade.

The aid which had been received from Russia up to this point was replaced to a small extent by other sources. In 1992, for example, Kyrgyzstan received grants from various sources amounting to ca. 15-20 million U.S. dollars, chiefly in the form of medical and food aid (IMF [1993a]).

4. Kyrgyzstan's foreign trade

The economy of Kyrgyzstan, like those of all the republics of the former USSR, was oriented to the production of goods and services for the intra-Union and Russian markets. Thus, the current foreign trade of Kyrgyzstan remains strongly dependent on old economic links. The analysis of foreign trade before 1993 (i.e., before the introduction of the national currency) presents significant difficulties associated with the impossibility of distinguishing the real level of export and import carried on by Kyrgyzstan itself from transactions determined by the central planning decisions of the USSR³. As a result, statistics on the foreign trade and balance of payments of the Kirghiz SSR overestimate the level of imports from countries outside the USSR and the level of exports to the USSR.

In the period prior to the attainment of independence in 1991, the share of trade with the republics of the USSR amounted to ca. 85 percent of all trade, according to official data (the chief trade partner being Russia, trade with Russia representing ca. 40 percent of all trade). In the two years following the fall of the USSR, Russia, Kazakhstan, and Uzbekistan have continued to be Kyrgyzstan's most important trade partners, although their importance has been subject to a slow decline (see tables 1, 2, and 3).

³An example, mentioned above, of a good traded by Kyrgyzstan on behalf of the entire USSR is sugar. An additional problem in determining the level of foreign trade within the USSR, in rubles as well as in dollars, is associated with the artificial structure of prices of many goods, caused by, among other factors, the barter nature of many interrepublican settlements and the political nature of many decisions.

4.1. Trade with the CIS

In the period directly preceding the attainment of independence, Kyrgyzstan's exports to the republics of the USSR amounted to ca. 98 percent of all its exports, and imports from those republics amounted to ca. 77 percent of all its imports. Over 80 percent of Kyrgyz exports consisted of machines and appliances (the majority of which were designated for military use) and light industrial and food products. Kyrgyzstan's chief imports were oil and oil products, natural gas, chemical products, machines and appliances, and light industrial and food products.

The worsening of the economic situation of Russia and other members of the CIS had a series of negative consequences for the Kyrgyz economy. The collapse of the former system of payments within the CIS (see section 3 above) and the breakage of the interrepublican cooperative links between enterprises which had been imposed arbitrarily by the all-Union authorities led to drastic declines in industrial and agricultural production. At the same time, the intra-Union system of state orders was discontinued, and at the beginning of 1992, faced with shortages in their internal markets, the countries of the CIS began to introduce export restrictions.

The decline in volume of trade and worsening of the terms of trade were also caused by the cessation of financial transfers from the former USSR (see section 3 above) and the growth in the costs of the importation of energy resources. In 1992 a nearly 20 percent fall in the ratio of exports to GDP was caused by the gradual discontinuation of the reexport of sugar to the entire USSR. In the same year the foreign trade deficit with the nations of the former USSR, and especially with Russia, increased. The share of imports of energy resources in total imports is continually growing due to the adjustment of the prices of oil, oil products, and natural gas to world prices and to the drastic limitation of the imports of other goods.

1993 saw a further worsening of Kyrgyzstan's situation with respect to foreign trade, caused primarily by the unwillingness of trade partners from the former USSR to further finance the Kyrgyz trade deficit through the system of correspondence accounts. The introduction of an independent currency on 10 May, 1993, although bringing about progress in macroeconomic stabilization, also caused further difficulties in trade (in the case of interrepublican payments). Industrial production as a whole fell by ca. 50 percent in the course of two years (see table 9), while the production declines in the machine, electrical, and electronic industries were even greater.

Following the Kyrgyz parliament's decision to exit from the ruble area, conditions were added to bilateral trade contracts with Russia and other former members of the USSR in 1993 stipulating that prices would be fixed, payments made, and mutual obligations settled in hard currencies. Kyrgyzstan and Russia agreed that mutual trade transactions would be supported by two indicative lists (clearing agreement) determining the prices and quantities of goods to be exchanged. Russia agreed to supply oil-derivative, metal and wood products as well as liquid gas. In exchange Kyrgyzstan agreed to export to Russia cotton, tobacco, wool and wool yarn as well as nonferrous scrap metal.

Kyrgyzstan signed similar intergovernmental clearing agreements with other former members of the USSR, including Kazakhstan and Uzbekistan. However, the lack of imported input and the growing financial difficulties faced by enterprises prevented

Kyrgyzstan from completely fulfilling its stated contract obligations for 1993. It is important to remember that the majority of prices were fixed at world price levels, with the exception of tobacco (35 percent higher) and wool (100 percent higher!) in export to Russia and gas (60 percent of world price) in import from Uzbekistan. In conjunction with the liberalization of trade in 1994, the system of state orders for fulfilling the stipulations of the intergovernmental clearing agreements is being liberalized. An innovation is the voluntary system of contracts for suppliers (producers), which have the character of futures contracts, under which the government agrees to pay 25 percent after the signing of the contract and the rest following delivery. The list of goods included in clearing agreements remains the same; however, the volume of transactions has undergone a significant reduction (in the case of grain, for example, 20 percent of the quantity of 1993). Thus, a process of reduction of state interference in foreign trade is taking place, although a safety margin is being maintained, as in the case of indispensable deliveries of energy resources.

Geographic, economic, and historical conditions are forcing Kyrgyzstan to maintain the priority of its trade relations with the nations of the former USSR. However, attempts are being made to shift to a greater proportion of trade contacts with its nearest neighbors and to diversify exports and seek out new markets, especially in developing countries.

4.2 Trade with the rest of the world

Official statistical data on trade with countries outside the USSR are expressed in U.S. dollars. However, due to the existence of multiple exchange rates prior to 1993, these figures must be viewed only as approximations.

The data starting from 1992 show a significant improvement in the balance of trade with the rest of the world. A surplus was registered for the first time since the late 1980s, reflecting the growth of exports of non-ferrous metals, wool, skins, and technical products on one hand and a fall in the imports of sugar, chemical and petrochemical products, clothing, and leather and food products on the other. In 1993 the Statistical Agency of Kyrgyzstan began including the service sector in trade statistics and humanitarian aid received from abroad in import statistics.

Kyrgyzstan's exports consist of non-ferrous metalurgical products, light industrial products (wool, cotton, and silk), leather goods, and tobacco. The shift of Kyrgyz exports in the direction of developed and developing countries is proving to be reasonably profitable, considering the structure of Kyrgyz trade inherited from the era of central planning and the need for sudden reorientation in the direction of exports. The humanitarian aid received also caused a change in the direction of Kyrgyzstan's imports: the share of imports from the USA, Germany, and Canada grew. In addition, China's proximity and the good political and economic relations Kyrgyzstan enjoys with China (as well as good social relations due to the existence of the Chinese minority in Kyrgyzstan) serve to promote an increase in the volume of trade (although import of finished goods, including consumption goods, is difficult to balance by deliveries of raw materials) and flows of investment.

4.3. The financing of foreign trade, currency convertibility and perspectives for the balance of payments

Until August 1991 all transactions associated with the foreign trade of Kyrgyzstan were conducted through the Vneshekonombank, whose headquarter was in Moscow. After the attainment of independence, a new banking law allowed commercial banks to hold currency reserves, and beginning in January 1993 official reserves of the Central Bank of Kyrgyzstan in hard currencies and gold were created⁴.

Foreign currencies are purchased by commercial banks, after the presentation of their clients' contracts (which must be accepted earlier by the Customs Agency) at currency auctions organized by the Central Bank twice a week. Customs declarations sent to the Customs Agency and the commercial bank state the legality of the operation and close it for purposes of customs law.

The som is in practice a fully convertible currency, both externally and internally. There are no restrictions of capital transfers either for residents or non-residents.

Information obtained from the Kyrgyzvneshebank (the former branch of the Vneshekonombank in Kyrgyzstan), which is one of the largest Kyrgyz commercial banks, indicates that in the area of foreign trade, one may presume the scale of officially registered activity of state enterprises and private firms to be small. This is a result of the weakness of monitoring, among other factors⁵.

The economic growth of Kyrgyzstan will depend upon the expansion of foreign trade. The small size of the domestic market and the level of consumption demand, kept low by the stabilization program, will force Kyrgyzstan to turn to export activity. In the short run there are few possibilities for the development of trade with the former members of the USSR or for a more significant diversification of export to developed countries. Possibilities for the growth of regional trade within the Free Trade Zone (see section 8 below) and with developing countries appear to be more promising. However, a structural deficit in the balance of payments should be expected to continue for several years. As restructuring and stabilization of the economic situation in the region occur, an opportunity for the gradual growth of exports of electricity and industrial and food goods (a potential area of comparative advantage for Kyrgyzstan) will arise. There may also be an increase in the prices of raw materials exported by Kyrgyzstan. In the nearest future the share of energy resources in Kyrgyzstan's imports will be high (the low level of such imports which has prevailed recently cannot be sustained in the presence of economic growth and a slowdown in the decline of production). According to World Bank estimates, Kyrgyzstan will need 320-380 million U.S. dollars from external sources to finance its balance of payments deficit in the years 1994-1996, as well as an additional 70 million U.S. dollars in 1994 and 330 million U.S. dollars in 1995.

5. Macroeconomic Policy

⁴According to the official position of the Central Bank, the reserves of gold need to be increased, and the Central Bank is conducting purchases of gold on foreign and domestic markets.

⁵Monitoring at the borders - including customs control - exists only on the border with China, where Russian troops are still stationed, and on railway lines. According to information obtained from the Customs Agency, control points will be created on roads and at airports in 1994. Customs control on borders within the free trade zones is limited, but is also scheduled to be improved in the current year.

Until 10 May, 1993, the day on which the new Kyrgyz currency - the som - was introduced, the macroeconomic situation and monetary policy of Kyrgyzstan was more or less identical to those in the entire ruble area. While there are certain differences between the Kyrgyz inflation indicators (see table 4) and their Russian counterparts in particular months (caused primarily by different schedules of price liberalization), the general trend is similar. After the initial spurt of inflation in January 1992 (which was of a corrective nature and eliminated a significant portion of the monetary overhang), the inflation rate declined sharply, as was also the case in Russia and the Ukraine (see Dąbrowski [1994a, 1994b]). Subsequently, in connection with the CBR's loss of control over the money supply in the ruble area, inflation in Kyrgyzstan (as elsewhere) jumped to a monthly rate of over 20 percent beginning in September 1992. Even higher price growth indicators in January (46.3 percent) and February 1993 (39.9 percent) were associated with a series of stages of price liberalization.

The currency reform (under which rubles were exchanged for soms at a rate of 200:1) was an element of a broad stabilization and liberalization program which formed the basis for an agreement with the IMF on the provision of stand-by credit and Systemic Transformation Facility credits. These were accompanied by aid targeted for the restriction of the money supply and the budget deficit. After a period of significant monetary and fiscal expansion at the end of 1992 and beginning of 1993⁶ (see tables 7 and 8), credit and fiscal policy became restrictive in the second quarter of 1993. Among other reforms, the NBK began to limit the direct allocation of credit through special lines, addressed to concrete sectors and enterprises at significantly reduced interest rates, introducing instead a market system of credit allocation. The nominal interest rate rose significantly, adjusting to an equilibrium level matching demand and supply on credit markets (340 percent annually in mid-October 1993). The conditions criteria of the stand-by agreement were essentially fulfilled by 30 June, 1993. Additionally, there was a small reduction in inflation in the summer of 1993 (see table 1), to a monthly rate of below 20 percent.

Unfortunately, the patience and consistency necessary to complete the economic stabilization which had been initiated were lacking at this time. Effective pressure by industrial and agricultural lobbies brought about a loosening of monetary policy: in July 1993, inter-enterprise arrears were once again subjected to multilateral clearing and new, subsidized credit lines for agriculture were opened. Further price growth was caused by a new wave of external shocks, consisting of the gradual upward adjustment of the prices of imported oil and natural gas to reflect world prices and the closing of financial "windows" by the CBR. Once again, inflation jumped in September and October 1993 to a monthly rate of over 30 percent. Kyrgyzstan found itself on the brink of hyperinflation and the collapse of the newly introduced currency.

The Kyrgyz government and the NBK reacted by once again restricting monetary and fiscal policy. In the fourth quarter of 1993, the growth of the broad monetary aggregate M2 was practically zero (see tables 7 and 8). A factor aiding this adjustment was the fall in foreign currency reserves held by the NBK as well as the entire banking system. This

⁶As in Russia and more particularly the Ukraine, the Kyrgyz authorities introduced a process of multilateral clearing of inter-enterprise arrears (so-called *vzaimozachet*), distributed to enterprises special reduced-rate credit for supplementing turnover means, and provided abundant subsidies and credit to state and collective farms.

requires a few words of explanation. As the data in table 7 show, Kyrgyzstan's foreign currency reserves - both those of the central bank and of the entire banking system - have a net negative value. This means that the country's foreign obligations exceed its foreign currency assets. The Russian technical and interstate credits discussed in section 3, as well as credits and grants from other countries, allow for the maintenance of a negative balance on the current account, and thus for the neutralization of the growth of net national assets of the bank system. Thus, in the last months of 1993 the scale of the budget deficit was successfully restrained, falling from 9.2 percent of GDP in the first two quarters to 8.8 percent of GDP by the end of the year (in accruing calculus).

The restrictive macroeconomic discipline produced a gradual but decisive decline in the monthly rate of inflation, as illustrated by table 4. A certain amount of growth of the CPI in February 1994 was caused by the liberalization of bread prices in that month and the simultaneous elimination of subsidies for its production. A monthly inflation rate of 2.5 percent (in June 1994) and a certain nominal appreciation of the som in the second quarter of 1994 (see table 10) would seem to demonstrate the attainment of the first stage of relative macroeconomic stability, especially since data on the growth of wholesale prices (2.4 percent in April and 1.9 percent in May of 1994) seem to show a further tendency to decline. Several months will, however, be necessary before a conclusive evaluation of the success in this area will be possible.

The Kyrgyz authorities are trying to sustain this success, having drawn up in the spring of 1994 a new three-month economic program (the so-called Policy Framework Paper), which will form the basis for acquiring special IMF Enhanced Structural Adjustment Facility (ESAF) credits, designated for countries with low GDP per capita. The goals set forth in this program are the gradual reduction of inflation from 116 percent in 1994 (December 1993-December 1994) to 30 percent in 1995, 12.7 percent in 1996, and 6.5 percent in 1997. It seems that the successes of the spring will allow for a downward revision of the program's inflation ceilings, especially for 1994 and 1995.

The stabilization success of the spring of 1994 is particularly worth emphasizing in view of the fact that it was accompanied by a certain loosening of monetary policy in the first quarter of 1994 (see tables 7 and 8) and closely related difficulties in the realization of the budget (see tables 5 and 6). Given the simultaneous fall in GDP (although various estimates of this fall differ widely, from single digit to much larger double digit figures), this would tend to indicate a certain remonetization of the economy. However, the lack of reliable data on GDP, especially in monthly and quarterly periods, make estimates of changes in money velocity impossible for the short term.

Generally, however, the very low degree of monetization of the Kyrgyz economy constitutes, along with the negative net foreign currency reserves, a problematic aspect of the stabilization policy. The ratio of the money supply (M2) to registered GDP is no more than 2-3 percent; by comparison, in Russia it fluctuates around 10 percent, in Poland around 23-24 percent, in Hungary around 53 percent, in the Czech and Slovak republics around 80 percent, and in China over 100 percent (Harvard [1993], Mizsei and Rostowski [1993]). If we further assume - and this is very likely - that a large portion of GDP is not registered in official statistics, this picture becomes even more unsettling. Obviously, Kyrgyzstan possesses certain characteristics typical for countries with a low degree of development, having an extensive barter economy, where money functions only to a very limited extent - or, indeed, not at all - as a medium of exchange. But these facts fail to

completely explain the phenomenon of the very low degree of monetization of the Kyrgyz economy. It seems that more essential reasons can be found in the continuing lack of confidence in the national currency, continuing highly inflationary expectations, the high degree of dollarization of the economy, and the underdevelopment and insufficient stability of the banking system.

The low degree of monetization renders the achieved stabilization unusually fragile, extremely sensitive to even the smallest increase in the budget deficit or the foreign currency reserves of the NBK. A fixed exchange rate policy could constitute a step toward overcoming inflationary expectations and the lack of confidence in the som and at the same time increasing demand for the national currency. However, such a policy would be made very difficult by the shortage of foreign currency reserves of the central bank (negative net reserves and minimal gross reserves) as well as by the serious fiscal policy difficulties currently facing the country.

These last-mentioned difficulties represent the third and probably most important threat to the Kyrgyz stabilization and systemic reforms. A careful analysis of tables 5 and 6 reveals an unusually low level of budgetary revenues, barely exceeding 10 percent of GDP. The collapse of the traditional revenue sources of the centrally planned economy is a natural characteristic of economies in transition, a consequence of the liberalization of the financial system of state enterprises (McKinnon [1991]). It very often results from the weakening of the repressive authority of the state. This process could be observed, for example, in Poland in 1987-1989, in Rumania and Bulgaria in 1989-1990, and in the USSR in 1990-1991.

The experience of Poland and Hungary (Mizsei and Rostowski [1993]) - and most recently Russia as well - show, moreover, that after the achievement of the first stage of stabilization (that is, after coping with the original fiscal crisis caused by the fall of the administrative command system), a second wave of fiscal difficulties will appear, connected with the decline in profitability of state enterprises, a fall in tax discipline in the new private sector as well as in the traditional state sector, the growth in social expenditures, etc. This is often an effect of the cessation of "soft" financing by the central bank, which on the one hand facilitated enterprises' ability to make tax payments (by, for example, carrying out the multilateral clearing of interenterprise arrears), and on the other hand replaced the earlier *de facto* budgetary subsidization of various economic undertakings.

Kyrgyzstan seems to be faced with a temporal overlapping of the primary and secondary fiscal crises. Even this fact fails, however, to explain the scale of collapse of budgetary revenues. In Poland state revenues (not including local government budgets or extrabudgetary funds) never fell below 27 percent of GDP. In Russia, despite increasing difficulties with tax collection in the first two quarters of 1994, revenues have been maintained at a level not below 25 percent of GDP (this figure refers to the consolidated budget; that is, to the joint revenues of the federal and regional budgets, but not including extrabudgetary funds of a social character). In Kyrgyzstan the lowest fall was registered by profit tax revenues, which in the other countries mentioned earlier represented the main cause of the second fiscal crisis. On the other hand, revenues from indirect and personal income taxes have been extremely low. In particular, the disastrous state of collection of the VAT points to the fundamental ineffectiveness of state tax administration and its incapability to enforce existing regulations.

A further reason for the loss of a portion of tax revenues is connected with the above-mentioned problem of completely open borders within the CIS. This means that not only customs duties (limited to a narrow group of goods - see section 7) but also VAT and excise taxes on imported goods are not being collected.

An analysis of the construction of the tax system reveals many flaws. Although in 1991-1992, following the example of other post-Soviet states (primarily Russia), Kyrgyzstan carried out a rather radical reconstruction of this system, many characteristics inherited from the era of central planning remain. **First**, profit tax rates continue to be differentiated, depending on type of activity and source of revenues, showing a preference for material production and discriminating against trade, services and financial operations. This seems to echo the traditional Marxist fascination with material production and contempt for (or outright rejection as pathological) intermediary, trading, financial, and similar activities. This enormously complicates the administration of the tax system, especially in view of the multibranch activity of many enterprises, and encourages, moreover, the conduct of nonregistered economic activities, especially in trade and services. **Second**, a certain tax discrimination against the private sector continues to be present (especially in view of the discrimination against trade and services, where this sector dominates), which hampers the development of a potential locomotive of future growth and encourages agents to locate their economic activity in the "grey," or "underground" sector. **Third**, the basis for calculating profit and sales receipts is the cash basis, and not, as in most other countries, the accrual basis. This is an additional incentive stimulating the growth of inter-enterprise arrears through the non-payment of balances due. Moreover, the number of barter transactions - by means of which normal accounting records are evaded - is increasing⁷. **Fourth** - as in many other post-Soviet states - there has been a proliferation of various types of tax shelters, generally approved either by the parliament, which is dominated by representatives of specific lobbies, or by the office of the prime minister, which is subject to the pressure of large enterprises and has awarded abundant individual tax reliefs and holidays. With regard to this last point, it should be noted that radical remedial decisions were made in the spring of 1994 which eliminated the majority of existing tax shelters.

The extremely low level of expenditures of a public (i.e., the financing of typical public goods) and social nature raises serious doubts in the possibility of achieving a balanced budget by means of spending cuts. The sole remaining reserves in this sphere seem to be "subsidies for the national economy" and government lending to enterprises, especially to state and collective farms. However, one may safely assume that infrastructural and social expenditures cannot be indefinitely maintained at such a low level. On 1 January, 1994, the number of registered unemployed amounted to 2,936, of which 1,733 were receiving unemployment compensation, representing, respectively, about one tenth of 1 percent and one twentieth of 1 percent of the total workforce (Kyrgyzstan [1994, pp. 32 and 37]). The near future will certainly bring an increase in the number of unemployed, which in turn will necessitate increased expenditures on unemployment compensation and increase the pressure on the system of retirement pensions. Given the reduction in the rate of inflation, the possibility for real depreciation of social entitlements - whose already low level undoubtedly helped to restrain the level of budgetary expenditures in the years 1992-1993 - is limited. Without a dramatic increase in the effectiveness of tax

⁷This last factor partially explains the low demand for money for transactions purposes.

collection it is thus difficult to imagine that the macroeconomic stabilization will be of a lasting nature, especially in view of the fact that the low level of monetization of the economy and the negative net foreign currency reserves render the non-inflationary financing of even a relatively small budget deficit enormously difficult.

6. The internal liberalization of the economy

The process of deregulating the Kyrgyz economy has proceeded parallel with the undertaking of the stabilization efforts described above (IMF [1993a, 31-36]; World Bank [1994, 16-18]). Under the conditions of the transformation, these processes are inevitably linked; it is very difficult to imagine, for example, eliminating direct and indirect subsidies for enterprises without providing them with basic economic autonomy, especially in the areas of price formation, determination of the structure of production, and choice of suppliers and customers.

The process of liberalization of the internal market, begun already during the final years of perestroika (sometimes occurring spontaneously on private markets arising as a response to the omnipresent shortages in the state sector), was accelerated considerably at the beginning of January 1992. Following the Russian example of price liberalization initiated by Prime Minister Gaidar, Kyrgyzstan liberalized the majority of internal prices and eliminated the majority of consumption subsidies. Prices remaining under administrative control were raised three- to eleven-fold. Subsidies for bread and milk, apartment rents and some communal and transportation services were maintained. However, administered prices were raised several times in the years 1992-1993.

The real picture in the area of free price determination was more complicated. The State Committee on Prices and Antitrust Policy was authorized to monitor prices of goods which were included in state orders or produced by "monopolistic enterprises." The latter were defined as enterprises with domestic market shares in excess of 35 percent. Price monitoring consisted primarily of the regulation of producers' profit margins (as a rule 20-25 percent of surcharge). Thus, in practice a large portion of economic activity was carried out under conditions of indirect price interference by state organs, with all the associated negative consequences for microeconomic efficiency and budgetary revenues.

Worse yet, in 1993, in spite of intentions stated in the stand-by and STF programs, a clear trend in the direction of a return to administrative control of the markets for goods and services could be observed. This was clearly temporally correlated with the loosening of macroeconomic policy in the summer of 1993, which was intended by government leaders to slow the production decline in the state sector and to prevent a fall in the living standard of citizens. In practice, however, it resulted in a slowdown in the process of reform in the early autumn of 1993, as well as the emergence of the threat of hyperinflation (see section 5 above).

First, in conjunction with the introduction of the som into circulation, the control of profit margins in retail trade was reinstated (a maximum level of 25 percent was set). **Second**, the above-mentioned price regulation for so-called monopolistic enterprises was tightened. **Third**, there was a return to the system of state orders (*goszakaz*) for wool, tobacco, cotton, and grain, as well as to state purchase prices below market prices and obligatory delivery quotas. **Fourth**, export licenses and prohibitive export taxes were introduced for the purpose of defending the internal market and assuring an appropriate

level of deliveries for the realization of intergovernment clearing contracts (see section 4 above).

The return to a hard macroeconomic policy brought with it a renewal of liberalization activity by the government. In the first half of 1994 the majority of prices were liberalized (including a partial liberalization of bread prices), and the systems of state orders, export controls, price controls for monopolistic enterprises and profit margin controls in trade were liquidated. The list of monopolies was reduced to consist of nine natural and technical monopolies. State orders were replaced by a much more limited list of so-called state requirements (*gosnuzhdy*), whose deliveries were organized on the basis of freely negotiated contracts. In accordance with the intentions of the government, these purchases amounted to about 20 percent of the grain, 31 percent of the unprocessed cotton, 64 percent of the tobacco, and 25 percent of the wool produced in 1993. Prices for electricity, gas, and central heating remain subject to controls and subsidies.

Kyrgyzstan currently possesses one of the most liberal systems for market entry and the establishment of new firms within the former USSR. The only requirement for agents wishing to take up most types of economic activity is that of registration, which local administrative organs may not refuse, and which is accompanied by a payment to the treasury equal to one monthly minimum wage.

With regard to the creation of market institutional arrangements, it is worth emphasizing the introduction in 1993 of credit markets, currency auctions and treasury bond markets. These innovations, together with the continuing reform of the banking system, the plans for privatization, and the creation of a stock market, make possible the evolution of a strong financial market in the course of the next several years, with effects extending perhaps beyond the borders of Kyrgyzstan itself.

7. External liberalization

The greatest progress in the liberalization of the Kyrgyz economy can be observed in the sphere of foreign trade. After attaining independence in 1992 and 1993, the countries of the CIS were faced with shortages on their domestic markets and as a consequence introduced trade restrictions on a massive scale. Kyrgyzstan is the first state in the CIS to have radically altered its approach to foreign trade in the course of two years, deciding in favor of an almost complete liberalization of external goods and currency turnovers. The liberal evolution of Kyrgyz politicians' views on these matters has probably been influenced by historical traditions and geographic location (southern Kyrgyzstan lies on the former trade route from China to Europe, the so-called "silk route"⁸) as well as by the desire to make Kyrgyzstan the "Switzerland of the East."

The first document regulating foreign trade in Kyrgyzstan is Law No. 1062-XII of 15 October, 1992, which precisely defines some important relevant terms (for example the country of origin of a good), sets tariff rates, and identifies goods of strategic significance for the state. International contracts closed before this law went into effect have priority status. During 1993 and 1994 the list of goods subject to export and excise duties was revised every few months, and charges were gradually reduced.

⁸At the same time it is, unfortunately, possible to speak of a "narcotics route" leading from Afghanistan and Pakistan to Western Europe and the USA.

In 1994 licensing and quota restrictions in foreign trade were repealed (although the intergovernmental contracts described in section 4 and the system of licenses for such special goods as guns and cultural objects remained). In effect, since 28 May, 1994, the list of goods subject to export duties (Government Resolution 358) has contained only nine categories: farm animals, grain, sugar, precious and rare earth metals, pharmaceuticals, skins, iron and colored metal scrap, rare wild animals, decorative plants (and anthropological finds). The highest duty rate - applied to grain, sugar and skins⁹ - amounts to 30 percent of the value of sold goods.

Excise duties (Government Resolution 357) were placed on the following groups of goods in domestic turnover and import: tobacco (12-18 percent of wholesale price [w.p.]) and tobacco goods (from 60 percent of w.p. to 200 percent of purchase price [p.p.]), alcohol (200 percent of p.p.) and alcoholic goods (from 55 percent of w.p. for wine to 400 percent of p.p. for cognac), carpets (from 10 percent of p.p. to 12 percent of w.p.), furniture (from 12 percent of w.p. to 15 percent of p.p.), furs (45 percent of w.p.), oil products (15 percent of w.p. or p.p.), automobiles (from 30 to 60 percent of p.p., depending on engine capacity), electronic equipment (10-20 percent of p.p.), coffee, tea, cocoa (10 percent of p.p.), and crystal (30 percent of p.p.). Since June 1994 only the first two groups of goods - i.e., tobacco and alcoholic goods - have been subject to excise duties (there have been no large changes in the rates). Thus, only those two groups of goods are subject to import duties.

8. Duty free areas, the Free Trade Zone, and flows of foreign capital

On 7 May, 1993, the Kyrgyz legislature passed a law creating four duty free areas (DFAs) with the intention of attracting foreign investment to those regions and assuring their economic development. The law established a separate budget and the principle of self-financing for these duty free areas as well as regulations on the perpetual leasing of land and the free turnover of goods and currency. Goods "exported" from the DFAs to other parts of Kyrgyzstan are subject to duties charged only on the value added outside the territory of the relevant DFA. After only one year of their existence, it is still too early to evaluate the real effects of the DFAs.

At the end of 1993, the presidents of Kazakhstan and Uzbekistan concluded an agreement on the creation of a Free Trade Zone (FTZ) encompassing their two countries. The details of the agreement are to be worked out by the appropriate ministries and central banks, and the agreement itself will be subject to ratification by the parliaments. The leading idea of the FTZ is the gradual lifting of tariff restrictions in bilateral trade, although mutual assistance in the fight with the narcotics trade and customs crimes is also emphasized. Kyrgyzstan became a signatory to the agreement at the beginning of 1994¹⁰. The agreement also provides for the founding of a Central Asian Bank, which would serve as a Kazakh-Uzbek-Kyrgyz investment and clearing institution.

⁹The last group of goods is subject to an 80 percent rate duty, but it is difficult to regard this as an obstacle to global international trade turnovers.

¹⁰The details of the FTZ agreement are still being worked out, and the agreement still awaits parliamentary ratification. Therefore reliable information is lacking even on the fundamental character of the agreement; that is, whether it will result in the creation of a free trade zone or a customs union.

It is difficult to evaluate this agreement, intended to stimulate trade and the economic development of the signatory states, as it has not yet been finalized. However, several dangers are apparent (see Lewarne [1994]).

Among the FTZ agreement's signatory nations, Kyrgyzstan is the clear leader in the area of market reforms, having drastically reduced its subsidies and trade barriers. It has already begun to introduce privatization and restructuring programs based on the principles of market economics. Finally, it has taken up a serious struggle against inflation, conducting a hard monetary policy since the beginning of 1994. The potential gains for Kyrgyzstan from the FTZ agreement should therefore be evaluated very cautiously. Kyrgyzstan's achievements in economic reform could be relatively easily reversed under the influence of Kazakhstan and Uzbekistan, which have not reformed their economies to a similar extent.

An FTZ or customs union¹¹ provides for the free flow of labor, goods, and capital within the area covered by the agreement. The free flow of goods is profitable for all sides, especially for countries which have not yet worked out their comparative advantage. The elimination of tariffs, however, does not exclude other methods of protecting particular enterprises or whole industries by means of indirect subsidization, which is standard practice in Kazakhstan and even more so in Uzbekistan. An even greater danger for newly founded firms are the monopolies inherited from the previous era, as well as the possibility that enterprises which cooperated in the previous era could be induced to renew their old links. All trade contacts should go on without the mediation of the state apparatus and administratively created "mediator-hybrid" institutions.

Due to the lack of fundamental differences in standard of living in the countries covered by in the FTZ agreement and also to the lack of perspective for rapid changes, there appears to be no danger of large-scale migration and the social problems associated with it. Though differences exist in approaches to privatization (and subsidization) in these countries, there are no indications of labor flows between them. A factor inhibiting migration in postcommunist countries is the generally low mobility of the population, caused by familiarity with local conditions (and ability to exploit them) and the lack of drastic differences in neighboring countries which could serve as incentives for migration.

Kyrgyzstan's accomplishments in the area of monetary policy cannot be squandered by the linking of banking systems of the signatory countries of the FTZ agreement. Of these countries, Kyrgyzstan is the only one that has fully separated its fiscal and monetary policies and rendered its central bank fully independent from government and parliament. As the signatory country with the lowest level of inflation, Kyrgyzstan has also enjoyed an increase in the level of confidence in its currency, as shown by exchange rate developments and the growth of bank deposits in soms which has been occurring for several months. The som is also beginning to be regarded as a hard currency for payment purposes in the two other signatory countries.

The main goal of the FTZ agreement should be to support its participants in evening out as quickly, consistently and coordinatedly as possible their differences in monetary and

¹¹In an FTZ, member countries are allowed to conduct independent trade policies with regard to states outside the FTZ. The EFTA is an example of such an FTZ. In a customs union, such as the former European Economic Community, member states must work out a common trade policy with regard to other states.

fiscal policy as well as with regard to privatization, demonopolization and economic liberalization policies. Countries which are lagging behind in the transformation process should not be permitted to inhibit change among their neighbors or enjoy any special privileges.

The flow of foreign capital has been smaller than expected. China dispensed 3 million U.S. dollars' worth of credit for the purchase of Chinese goods in 1993 and 5 million U.S. dollars in credit for specified purposes in 1994. Small investments by the Chinese (food sector), Turks (leather industry), and Italians (silk industry) in the form of joint ventures are increasing and are primarily directed toward the delivery of goods and services to the domestic market. There has also been a growing number of larger investments, as in the cases of a British tobacco factory and a Canadian firm interested in gold mining. Large foreign investors are observing the activities of the government and the conditions under which other firms operate in Kyrgyzstan. The wavering of the government and political conflicts concerning the awarding of concessions for gold mining in the Himalayas are unfortunately not encouraging signals for potential investors.

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Table 1: Foreign trade transactions, in millions of rubles (as a percentage of total trade)

	1990	1991	1992	1993
Trade with other CIS members				
Export	2448.0 (97.8)	6506.0 (99.0)	46,301.0 (87.7)	218,855.0 (64.2)
Import	3122.9 (73.6)	5409.0 (79.2)	67,407.0 (95.3)	296,205.0 (70.9)
Balance	-674.9	1097.0	-21,106.0	-77,350.0
Trade with the rest of the world				
Export	53.0	64.6	6482.3	121,628.5
Import	1121.0	1423.3	3329.2	121,520.0*
Balance	-1068.0	-1358.7	3153.1	108.5
Total trade				
Export	2501.0	6570.6	52,783.3	340,483.5
Import	4243.9	6832.3	70,736.2	417,725.0
Balance	-1742.9	-261.7	-17,952.9	-77,241.5

* in 1993 foreign humanitarian aid in the amount of 67.2 million dollars (ca. 73 billion rubles) was included in official trade statistics.

Source: Statistical Agency of Kyrgyzstan and authors' calculations

Table 2: Geographic breakdown of trade with CIS members in millions of rubles

Country	Export				Import			
	1991	1992	1993	Q1 1994	1991	1992	1993	Q1 1994
Belarus	205	1,386	4,270	787.5	223	1,033	2,730	420
Kazakhstan	849	10,358	63,420	40,373	780	15,673	85,610	16,975
Russia	2,816	18,097	100,22	22,190	2,618	33,047	139,65	33,985
Tadzhikistan	275	647	5,442	892	82	462	1,312	735
Turkmenistan	278	1,127	7,717	4,060	109	4,105	6,317	11,480
Ukraine	600	8,008	12,425	5,722	389	5,478	6,037	1,645
Uzbekistan	719	4,794	20,965	13,983	817	6,136	51,310	45,360
Total	6,506	46,301	218,9	89,5	5,409	67,407	296,2	110,8

Source: see table 1

Table 3: Geographic breakdown of foreign trade with capitalist and developing countries in millions of U.S. dollars

Country	Export		Import	
	1992	1993	1992	1993
Capitalist countries	35	41.3	36	69.8
France	7	0.02	6	3
Germany	6	5.4	...	3
Italy	1	0.4	2	0.7
Great Britain	12	30	3	0.8
Developing countries	41	70.8	35	42.2
China	28	59.1	16	18.6
Turkey	2	2.6	3	8.8
Total	77	112.1	70	112

Source: see table 1

Table 4: Inflation, measured by CPI 1991-1994 (percentage growth in relation to preceding month)

Month/Year	1991	1992	1993	1994
January	8.9	157.0	46.3	12.8
February	6.8	29.4	39.9	16.9
March	2.7	15.8	24.4	7.4
April	50.0	17.9	16.6	4.9
May	2.5	4.3	21.4	3.5
June	2.3	5.2	17.1	2.5
July	0.5	8.2	16.5	
August	3.7	4.8	19.6	
September	1.3	26.9	32.8	
October	7.7	26.3	33.1	
November	16.7	22.8	21.9	
December	11.9	22.2	15.7	

Source: data of the National Bank of Kyrgyzstan and the IMF

Table 5: General government operations (percent of GDP) 1989-1994

Item	1989	1990	1991	1992	1993 ^a	1994 ^b	Q1 1994 ^a
TOTAL REVENUES	38.0	38.5	35.7	12.7	14.2	11.6	9.6
Tax revenues	28.0	26.3	17.5	11.2	7.7	8.0	5.0
Indirect taxes, of which:	15.1	14.1	9.7	5.2	3.7	4.3	2.0
-turnover tax	15.1	14.1	7.7	—	0.4	—	0.4
-VAT	—	—	2.0	3.8	2.5	3.0	1.3
-excise duties	—	—	—	—	0.8	1.3	0.3
Direct taxes, of which:	7.8	6.7	6.8	5.2	3.2	2.7	2.7
-personal income tax	4.2	2.4	2.5	1.3	0.8	0.7	0.6
-profit taxes	3.6	4.3	4.3	3.9	2.4	2.0	2.1
Other taxes	5.1	5.5	1.0	0.7	0.8	1.0	0.3
Non-tax revenues	2.9	1.3	5.5	1.6	1.5	2.3	3.3
Net transfers from USSR budget	7.1	10.9	12.7	—	—	—	—
Grants	—	—	—	—	4.9	1.2	1.3
TOTAL EXPENDITURES AND NET GOVERNMENT LENDING	35.9	38.3	31.1	26.2	23.1	14.9	15.2
Current expenditures, of which:	30.7	32.5	29.8	19.0	17.2	12.2	10.1
Wages and salaries	6.3	6.4	7.3	4.8	3.0	3.0	3.2
Purchases of goods and services	10.1	10.0	9.2	5.1	3.2	3.6	1.3
Transfers	14.3	16.1	13.4	5.3	7.1	3.3	3.0
Interest payments on public debt	—	—	—	0.0	0.4	0.8	1.8
Capital expenditures	5.2	5.8	1.3	1.1	0.8	0.8	0.6
Net government lending	—	—	—	6.1	5.1	1.9	4.5
SURPLUS(+)	2.1	0.3	4.6	-13.4	-8.8	-3.3	-4.4
DEFICIT(-)							

Source: IMF [1993a, table 13]; World Bank [1994, tables 5-1, 5-2], IMF current data, authors' calculations.

^a available data

^b budget act - April 1994 version

^a available data

Table 6: Budget expenditures, by function (percent of GDP) 1993-1994

Item	1993 ^a	1994 ^b	Q1 1994 ^a
TOTAL EXPENDITURES AND NET GOVERNMENT LENDING	23.1	14.9	15.2
Expenditures on the national economy (subsidies)	3.6	1.6	0.8
Total social spending, of which:	5.6	4.4	4.7
- <i>Education</i>	2.4	2.2	2.1
- <i>Health services</i>	1.5	1.0	1.1
- <i>Income transfers</i>	1.3	1.4	1.0
- <i>Social welfare</i>	0.3	0.2	0.3
Science and research	0.06	0.05	0.04
Justice and public order	0.5	0.5	0.3
State administration	0.4	0.3	0.2
National defense	0.4	0.3	0.4
Other expenditures	0.8	1.6	0.4
Unemployment compensation	0.0	0.1	0.0
Extrabudgetary funds	0.2	0.7	0.1
Interest on public debt	0.4	0.8	1.8
Capital expenditures	0.8	0.8	0.6
Distribution of foreign grants	4.9	1.2	1.3
Net government lending	5.1	1.9	4.5

Source: IMF data and authors' calculations

^a available data

^b budget act - April 1994 version

^a available data

Table 7: Basic monetary aggregates (in millions of soms) 1993-1994

Date	NDA	C ^G	C ^E	OIN	NFA	M0	MB	M2
31.12.1992	289.3	107.0	343.7	-154.2	-38.3	89.5	...	251.0
30.06.1993	851.2	337.4	866.5	-327.5	-348.3	157.4	...	502.9
30.09.1993	1147.2	555.0	1042.2	-384.9	-421.8	287.1	467.7	702.1
31.10.1993	1283.3	484.2	1210.6	-377.0	-536.8	333.0	...	719.1
30.11.1993	1315.2	480.9	1397.8	-532.4	-558.5	365.7	...	700.0
31.12.1993	1358.6	559.1	1509.0	-649.9	-579.7	398.4	522.0	702.2
31.01.1994	1507.0	634.2	1610.8	-705.5	-651.7	456.4	564.9	756.4
28.02.1994	1751.7	671.6	1742.6	-631.9	-664.8	468.2	583.7	934.3
31.03.1994	1552.2	710.0	1867.3	-973.7	-524.2	495.7	665.6	839.6

Explanation: NDA- net domestic assets of the banking system; C^G- net credit to general government; C^E- net credit to the economy; OIN - other items net; NFA - net foreign assets of the banking system; M0 - cash outside banks; MB - monetary base; M2 - broad money.

Source: World Bank [1994, table 6-1], IMF current data

Table 8: Monthly rate of growth of selected monetary aggregates (in %) 1993-1994

Period	NDA	M0	MB	M2
Q1, Q2 1993 ^a	43.3	20.7	...	26.1
Q3 1993 ^b	10.5	22.2	...	11.8
31.10.1993	11.9	16.0	3.7 ^b	2.4
30.11.1993	2.5	9.8	3.7 ^b	-2.7
31.12.1993	3.3	8.9	3.7 ^b	0.3
31.01.1994	10.9	14.6	8.2	7.7
28.02.1994	16.2	2.6	3.3	23.5
31.03.1994	-11.4	5.9	14.0	-10.1

Explanation and source: see table 4.

^a average monthly growth on semiannual scale

^b average monthly growth on quarterly scale

Table 9: Gross domestic product, industrial and agricultural production in fixed prices (percentage changes in comparison with the previous year)

Indicator	1991	1992	1993
GDP	-5.0	-19.0	-16.0
Industrial production	0.0	-27.0	-25.0
Agricultural production	-10.0	-6.0	-8.0

Source: World Bank [1994, table1]

Table 10: Som exchange rate, 1993-4 (no. of soms per 1 USD)

Date	NBK auction rate	commercial bank non-cash transaction rate	foreign exchange office rate
10.05.1993	4.0
26.05.1993	3.8
9.06.1993	4.3
23.06.1994	4.35		
07.07.1994	4.4		
21.07.1994	4.9		
18.08.1994	5.9		
03.09.1994	5.9		
15.09.1994	6.3		
29.09.1994	6.5		
13.10.1994	7.1		
27.10.1994	7.65		
10.11.1994	8.2		
24.11.1994	8.05		
08.12.1994	8.05		
22.12.1994	8.03		
13.01.1994	8.03	8.03-8.23	8.7-9.2
20.01.1994	8.23	8.23- 9.20	9.3-9.8
27.01.1994	8.62	8.62-11.50	10.5-11.0
1.02.1994	9.15	9.15-9.35	10.9-11.1
4.02.1994	9.69	9.50-9.80	11.0-11.5
10.03.1994	11.6	11.6-11.9	11.9-12.5
21.03.1994	11.7	11.7-12.0	12.2-12.7
5.04.1994	11.7	11.7-11.9	12.4-12.6
18.04.1994	12.3	12.3-12.5	12.6-12.8
9.05.1994	12.3	12.4-12.9	12.6-12.85
24.05.1994	12.45	12.45-12.65	13.0-13.8
10.06.1994	11.3	11.3-11.53	11.8-12.2
13.07.1994	11.3	11.3-11.53	11.3-11.7

Source: NBK data and the journal "Nowa Europa"