

ODA LOAN TO SUPPORT THE BALANCE OF PAYMENTS AND IMPROVE THE SOCIAL ASSISTANCE SYSTEM - Co-finance Program with the World Bank to support the Kyrgyz Republic-

The OECF (The Overseas Economic Cooperation Fund, Japan: President, Chairman of the Board, Mr. Kyosuke Shinozawa) has signed a loan agreement with the Kyrgyz Republic on the 21st May, 1999 as a necessary fund totaling up to 2,318 million yen, for its Social Sector Adjustment Program.

The Loan Agreement was formally signed in Bishkek, the capital of the Kyrgyz by Mr. Tomio Uchida, Vice President, Member of the Board, and H.E. Marat A. Sultanov, Minister of Finance of the Kyrgyz Republic.

This is the sixth loan the OECF has provided to the Kyrgyz Republic, and the cumulative commitment of loan has amounted to 25,665 million yen.

This program is to support the Kyrgyz Republic, which has been facing economic deterioration due to the Russian economic crisis, which occurred last year, to improve its balance of payments situation. The program also aims to support the government's effort in reforming the social assistance systems, such as pension system.

Amount, conditions of the loan, and outline of the project are as follows.

1. LOAN AMOUNT AND CONDITIONS

Project Name	Amount (Million Yen)	Interest Rate (% / year)	Repayment Period / Grace Period (years)	Tying Status
Social Sector Adjustment Program	2,318	1.8	30 / 10	General Untied

2. CURRENT ECONOMIC SITUATION OF THE KYRGYZ REPUBLIC AND OECF ASSISTANCE

The Kyrgyz Republic is located in the center of the Central Asian region where most of its territory is occupied by the Tien-shan range. The agriculture sector is the main industry of the country, where wheat and cotton are cultivated with abundant water which flow from the range.

With the collapse of the Former Soviet Union (FSU), the Kyrgyz Republic achieved its independence on August 31, 1991. Since then the republic has been the most enthusiastic country in economic reform among the states of the FSU. The republic was faced with diverse kinds of economic difficulties such as contraction of production, decrease of trade, and hyperinflation (exceeding 1,000% / year), mainly caused by the collapse of the previous centrally planned-economic system. However, despite such confusion, the republic commenced a review of its economic system, inherited from the Soviet era, and has carried out reforms targeting transition into a market economy system. In June 1992, the republic announced a comprehensive economic reform plan, with the support from IMF, including price liberalization, deregulation of international trade, reduction of fiscal expenditure, rearrangement of taxation, and the privatization of state owned companies. In May 1993 the Kyrgyz Republic was the first Central Asian country to introduce its own national currency, the "Som", to replace the Ruble. As a result of such reforms, the economy started to stabilize from around 1994. Then, GDP showed positive growth in 1996, first time since its independence, and it recorded 6.5% GDP growth in 1997.

However, the growth rate slowed down to about 2.0% in 1998 as a result of various external factors; such as economic stagnation resulting from the Russian economic crisis, a flood which happened in the southern part of the country, gold price stagnation in the international market, and decreasing export of electricity to Kazakhstan and Uzbekistan. The current account deficit in 1998 has expanded to 17% of GDP (8% in 1997) on account of the large decline in export of electricity and light industry products.

In order to support the efforts of the Republic to stabilize its macro economy, OECF provided two non-project type loans, "Rehabilitation Loan" (6,500 million yen) and "Commodity Loan" (3,127 million yen), in October 1993 and November 1994 respectively. Subsequently, OECF extended the first project loan for the "Bishkek-Manas International Airport Modernization Project" (5,454 million yen) in June 1996, the "Bishkek-Osh Road Rehabilitation Project" (3,016 million yen) in March 1997 and the "Bishkek-Osh Road Rehabilitation Project (II)" (5,250 million yen) in October 1998. The OECF has been providing loans tailored to the changing circumstances of the Republic at each stage of its transition process.

3. PROGRAM DESCRIPTION

Social Sector Adjustment Program

The Kyrgyz Republic is now facing fiscal deficit problems due to disequilibrium in the social assistance system. For instance, the present pensions system is now in transition from a non-contributory to a contributory system. However, the system is still dependent upon government subsidies. Pensions adjustment has not kept up with inflation, leading to bureaucratic duplication, there is much unnecessary government expenditure on social assistance, while many requiring support go unaided. The Kyrgyz government is currently implementing various reforms aimed at establishing a sound social assistance system.

This loan is designed to improve the Kyrgyz Republic's balance of payments difficulties and support the government's enthusiastic efforts to reform the social assistance system. The loan is provided in accordance with the progress of reforms. The program is co-financed with the World Bank.