

## A resilient economy ... on a slow growth trajectory

### With a special focus on : Kyrgyzstan's ailing energy sector



**Macroeconomics & Fiscal  
Management** Global Practice

*In collaboration with*

**Energy and Extractives** Global  
Practice



# **KYRGYZ REPUBLIC:**

*A resilient economy  
... on a slow growth trajectory*

*With a special focus on Kyrgyzstan's  
ailing energy sector*

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Kyrgyz Republic Economic Update No. 5

Spring 2017

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 Currency Equivalents: Exchange Rate Effective as of March 31, 2017  
 Currency Unit = Kyrgyz Som (KGS)  
 68.6069 KGS  
 Weights and Measures: Metric System

**Abbreviations and Acronyms**

CHP	Combined heat and power plant
CIS	Commonwealth of Independent States
EECA	Eastern Europe and Central Asia
EEU	Eurasian Economic Union
GDP	Gross domestic product
GoKR	Government of the Kyrgyz Republic
GWh	Gigawatt - hour
HPP	Hydro Power Plant
KGS	Kyrgyz Som
kWh	Kilowatt - hour
MBPF	Monthly Benefit to Poor Families
MTTP	Medium-Term Tariff Policy
MW	Megawatt
NBKR	National Bank of the Kyrgyz Republic
US dollar	United States dollar
VAT	Value-added tax

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## Foreword

This edition of the Kyrgyz Republic *Country Economic Update* was prepared by Bakyt Dubashov (Economist) and Aurélien Kruse (Senior Economist). The Special Focus Section was prepared in collaboration with the Kyrgyz energy team led by Katharina Gassner (Senior Energy Economist) and Kathrin Hofer (Energy Specialist). The section on energy affordability was prepared using analysis conducted by Aibek Baibagysh Uulu (Poverty Analyst), with input from Saida Ismailakhunova (Poverty Economist) and Sarosh Sattar (Senior Poverty Economist). A full analysis of the Kyrgyz energy sector is presented in the forthcoming World Bank report: “Analysis of the Kyrgyz Republic’s Energy Sector”.

The report benefited from comments and guidance by Maria Gonzalez-Miranda (Practice Manager) and Christos Kostopoulos (Lead Economist for Central Asia). Akylai Osmonalieva (Team Assistant) and Oxana Barysheva (Team assistant) provided editorial support.

The first part of the Economic Update analyzes recent macroeconomic trends and presents an assessment of the country’s short- and medium-term outlook.

The Special Focus Section discusses the state of the country’s energy sector, including issues surrounding its financial viability and fiscal implications, as well as the social implications of reform scenarios.

We hope you find it useful and welcome your comments!

Maria De los Angeles Cuqui Gonzalez Miranda  
Practice Manager  
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## Overview

**The Kyrgyz economy has been resilient to shocks in 2016.**

The Kyrgyz economy remained resilient to an adverse and volatile external context, growing at a robust 3.8 percent in 2016. Growth was driven by a recovery of the gold sector and an increase in private consumption, fueled by increased remittances, as well as government spending. The stabilization of the exchange rate, following appreciation early in the year, and low international food prices kept inflation at bay for most of 2016. Both exports and imports contracted: the former impacted by weak external demand and the enforcement of strict quality standards by the Eurasian Economic Union<sup>1</sup>; and the latter mostly reflecting low fuel prices and volumes imported. As a result, the trade balance improved slightly, while the current account balance was buoyed by the recovery in private transfers.

**An expansionary policy stance boosted demand but reduced fiscal space.**

Against the backdrop of the weak external environment, the authorities pursued an expansionary fiscal policy and relaxed the monetary stance, boosting domestic demand in the short run. Increased government spending supported economic activity. However, this came at the cost of significantly reduced fiscal buffers, which had been built in previous years. Meanwhile, the lower policy rate did little to expand credit, given weak transmission mechanisms. As a result, excess liquidity in the banking system was high, while credits to the economy shrunk.

**Going forward, growth is expected to decelerate slightly in 2017 and recover in 2018**

Looking ahead, growth is projected to decelerate slightly to 3.4 percent in 2017 and then recover to 4 percent over the medium term, owing to remittance supported-consumption, with a neutral contribution from investment and a negative one from net exports. The economy is expected to remain dependent on remittances, and exchange rate developments could affect trade patterns. A major policy challenge is to boost exports and investment through increasing the competitiveness of the economy.

**The Kyrgyz energy sector is in bad shape: unable to support growth and draining fiscal space.**

Although its financial performance has improved somewhat in 2016, thanks to favorable weather developments and tariff increases for non-residential consumers, the energy sector remains in precarious condition. It continues to absorb scarce fiscal resources in inefficient ways, at a time when rebuilding fiscal space is a priority. Reforming the sector is now a matter of urgent priority.

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<sup>1</sup> While quality standards predate the establishment of the EEU, their enforcement was significantly strengthened

## A. Recent Socio-Economic Developments

### Growth and inflation

**The Kyrgyz economy performed better than expected in 2016.**

Real GDP growth is estimated to have reached 3.8 percent in 2016, broadly unchanged from the previous year (Figure 1). The expansion in output was driven mainly by a recovery of gold production (particularly in the second half of the year) and consumption. However, non-gold GDP growth decelerated notably to 3.7 percent from 4.9 percent in 2015, mainly on account of slowdown of agriculture and construction as described below.

**Consumption drove growth on the demand side**

On the demand side, growth is believed to have been driven mostly by private consumption, as well as government recurrent spending. The former was supported by recovering remittance inflows, while the latter reflected *inter alia* the full-year implementation of wage increases enacted in late 2015 as well as increased spending on goods and services. Investment growth, for its part, was mostly on account of public investment, while private investment stagnated. Credit to the economy declined by 1 percent (compared to robust growth of 17.4 percent in 2015).

**Gold production drove industrial output growth, with weak performance in services**

On the production side, economic activity was driven mainly by industry. Industrial output grew at 5.1 percent (compared to a 3.1 decline in 2015), and in turn mostly by gold production (increasing by 5 percent after a -8.3 percent drop in 2015)<sup>2</sup>. Non-gold industry growth was also healthy at 5.4 percent (vs. 1.5 percent in 2015) driven by mining, the food industry, oil refinery (production in a new Chinese plant) and machinery. However, growth decelerated in agriculture to 3 percent in 2016 (vs. 6.2 percent in 2015) reflecting a weak crop output; it also slowed significantly in construction (to 7.5 percent from 16.3 percent), possibly an effect of the external shock, and services (to 3 percent vs. 3.7 percent) due to a fall in the transport and communication sector.

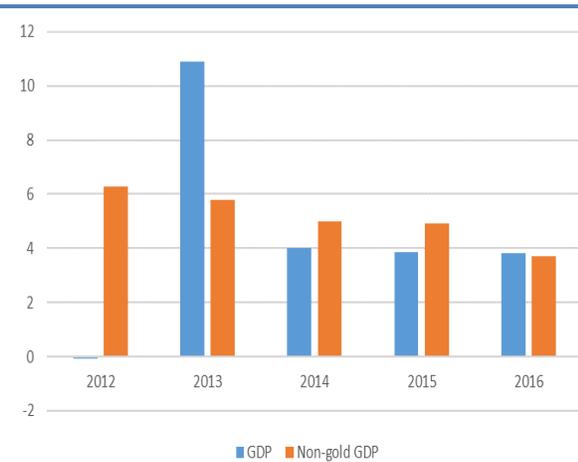
**Table 1: Key macroeconomic indicators, 2014-2016**

	2014	2015	2016 prel.
Real GDP (growth in percent)	4.0	3.9	3.8
Non-gold real GDP (growth in percent)	5.0	4.9	3.7
Gold sector (real growth in percent)	-5.8	-8.3	5.0
Consumption (real growth in percent)	2.4	-5.5	1.2
Investment (real growth in percent)	15.7	1.7	1.9
Inflation (eop, in percent)	10.5	3.4	-0.5

Source: National Statistics Committee and Bank staff estimates.

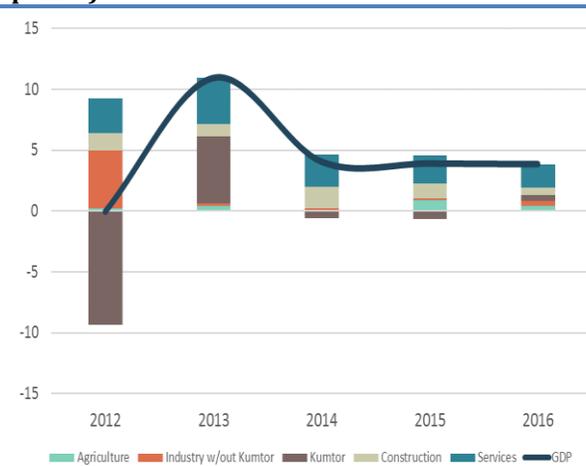
<sup>2</sup> In the Kyrgyz Republic, gold production and export patterns are overwhelmingly determined by geological factors and marginally so by demand conditions.

**Figure 1: Real GDP growth (in percent)**



Source: National Statistics Committee.

**Figure 2: Contribution to growth (percentage points)**



Source: National Statistics Committee.

**Low food prices and the absence of exchange rate pressures led to a significant decline in consumer prices.**

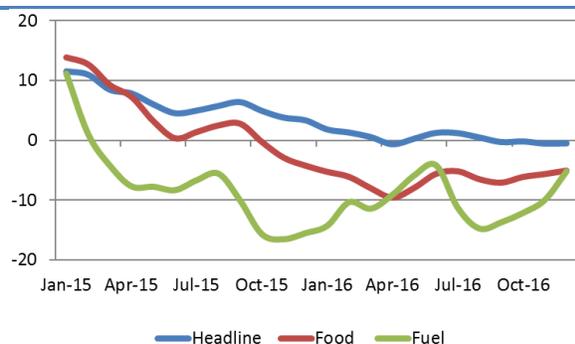
Inflation (end-of-period) is estimated to have been negative (-0.5 percent) in 2016, down from 3.4 percent in December of the previous year (Figure 3). This was on account of lower food and fuel prices, which fell by 5 percent, and 12.1 percent respectively. While this came mostly as a reflection of international trends, it was also a result from over-supply in the domestic market given obstacles to exports in Eurasian Economic Union (EEU) markets and increased competition from regional producers. In addition, exchange rate dynamics and the pass-through effect of the som’s appreciation relative to the dollar, as well as more muted inflation expectations, contributed to moderate the pressure on prices, with the impact of monetary accommodation, if any, expected, to materialize with a lag (Figure 4).

**Developments in the region, mainly in Russia, continued to affect the economy**

On the one hand, the slower growth contraction in Russia in 2016 drove an improvement in remittance inflows (which grew by around 18 percent in US dollar terms) supporting household incomes and consumption. As a share of GDP, this represents an increase to 24.9 percent from 20.1 percent in 2015. On the other hand, the volume of trade with Russia (Kyrgyz Republic’s main trading partner) contracted for the third consecutive year, by some 35 percent. This was partly on account of lower import prices and volumes<sup>3</sup> of fuel but also reduced exports (mainly textile goods). By contrast, trade with Kazakhstan increased by 10 percent with a rebound in re-exports of consumer goods from China.

<sup>3</sup> Since macroeconomic trends cannot account for the apparent drop in demand for fuel imports (especially given prices trends), the reported decline in volumes could reflect statistical issues or other mis-reporting.

**Figure 3: Inflation (in percent)**



Source: National Statistics Committee.

**Figure 4: Exchange rate (soms per US\$1)**



Source: National Bank.

## External sector

### **Both exports and imports shrunk, in US dollar terms, over the first 9 months of 2016**

Exports performed poorly in the first 9 months of 2016. Over that period, total exports are estimated to have declined by 1.5 percent, in US dollar terms, in spite of the fact that gold exports grew by about 5 percent (Figure 5). This weak performance is attributable to a significant decline in exports of agricultural and agro-processed goods, which typically make up more than 10 percent of the country's non-gold export basket. In turn, this resulted partly from the enforcement of enhanced standards of quality by EEU member countries. More broadly, the real appreciation of the som relative to the Kazakh tenge<sup>4</sup>, depressed competitiveness, dis-incentivizing exports and heightening competition on the domestic market. By contrast, exports to Uzbekistan, China and Turkey are reported to have increased. To the former, growing exports could be a reflection of improved trade facilitation as well as re-export activity. To China, they were mostly on account of gold, following Chinese investments in the sector. With Turkey, higher exports were driven by a good harvest for beans, Kyrgyzstan's main export product to the Turkish market.

### **Higher imports from China suggest a recovery of re-exporting activity**

Total imports are estimated to have fallen by 4.7 percent, in US dollar terms. Imports of fuel declined by about 50 percent, mainly reflecting lower international prices and volume declines. At the same time, imports of textiles, clothing and other consumer goods from China rebounded, suggesting that re-export activity recovered, following contractions in 2014 and 2015 (or that its accounting improved given significant past under-reporting), as well as the partial recovery of the ruble and tenge.

<sup>4</sup> by over 40 percent since July 2015

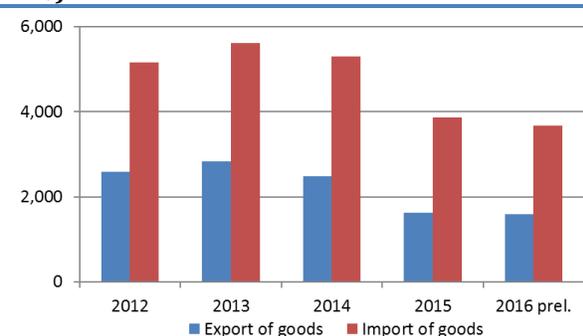
**The trade balance improved slightly...**

Overall, the trade balance improved slightly. The trade deficit declined to US\$2.1 billion in 2016, from US\$2.2 billion a year before, as imports fell relatively faster than exports from a considerably higher base. As a share of GDP, the trade deficit shrunk more noticeably to 31.8 percent from 33.6 percent in 2015 (Figure 6).

**... and the current account deficit narrowed significantly.**

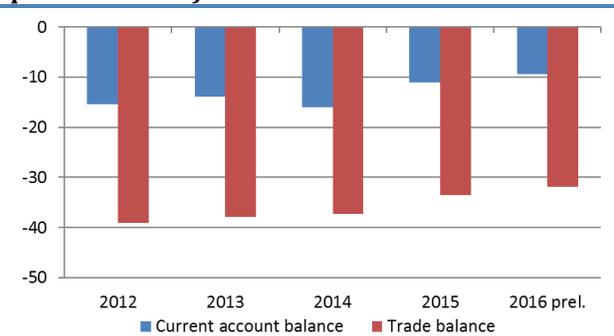
Reflecting the lower trade deficit as well as recovering remittance inflows, the current account deficit narrowed significantly. It shrank to 9.7 percent of GDP, from 15.9 percent a year before (Figure 6). This was mostly due to increased private transfers, including remittances, which grew by about 18 percent in US dollar terms. While these developments helped buttress stability in the short term, they may not contribute to long term external sustainability, which would require robust export growth. The current account deficit was financed by foreign direct investment and public borrowing; FDI amounted to US\$430 million and public borrowing was US\$370 million in 2016.

**Figure 5: Exports and Imports (in millions of US\$)**



Source: National Bank.

**Figure 6: Trade and Current Account Balances (in percent of GDP)**



Source: National Bank.

**Financial sector**

**The financial system has ample liquidity in a weak demand environment.**

The financial sector expanded modestly on account of banking sector activity. In 2016, the assets of the banking sector grew by 0.1 percent to 178.2 billion of soms, as the banks purchased more government bills, and increased their correspondent accounts at the National Bank and cash holdings. However, their loan portfolio declined by 0.4 percent. Among the many possible reasons behind this decline: the slowdown in construction and services, price effects (with the som appreciation lowering the value of foreign currency denominated loans), the direct lending operations of the Kyrgyz-Russian Development Fund, and the impact of NBRK regulation -enacted in February 2016- to curb lending in foreign currency. On the liabilities side, total deposits increased by 4

percent, driven by settlement and on-demand accounts, while time deposits fell by almost 12 percent.

### **Financial stability indicators remain in the green**

Overall, banking sector performance indicators remained comfortably positive, signaling a stable financial system. The capital adequacy ratio was high at 24.8 percent as of end-December 2016, up from 22.4 percent a year before, and well above the statutory requirement of 12 percent. The liquidity ratio declined slightly to 75.5 percent (from 77.8 percent at end-2015) though remaining well in excess of the required level of 45 percent. Both returns on assets and returns on equity remained positive at 0.5 percent and 3.4 percent, respectively, although lower than in 2015 (1.5 percent and 10.8 percent). Moreover, the non-performing loans ratio deteriorated slightly to 8.8 percent from 7.1 percent in 2015 and 4.5 percent in 2014

## **Social sector**

### **Household consumption increased mainly due to remittances and low food prices**

In 2016, higher remittances and lower food (domestic and external) prices positively impacted the purchasing power of households, especially at the bottom of the income distribution. Except for dairy products and vegetables, the Kyrgyz Republic is highly dependent on imports of food, particularly for meat, vegetable oils, sugar and wheat/wheat flour. The latter commodity is the most important food item for households in terms of caloric intake; in 9 months of 2016, Kyrgyz households on average dedicated 46 percent of total consumption to food.

### **Incomes from wages, agricultural income, pensions and remittances continue to be the most important income sources**

In 9 months of 2016, income from wages and self-employment contributed on average 69 percent to total household income, followed by 15.8 percent from social transfers, 10.7 percent from incomes generated through agricultural activities, and 4 percent from remittances. Real incomes per capita increased by 3.8 percent. The importance of different income sources varied regionally, with urban households being more dependent on incomes from wages and self-employment, while rural households tended to rely to a larger extent on agricultural income and received remittances. The share of remittances in total incomes is especially large for migrant rural households and very sensitive to macroeconomic conditions. Without remittance income, migrant households are much poorer than non-migrant households in the country. The poverty rates of non-migrant households have remained relatively stable.

**Consumption growth, however, was not accompanied by sufficient jobs creation.**

Consumption growth, however, was not accompanied by sufficient job creation. Subdued activity in construction and agriculture, where about 50 percent of the Bottom 40<sup>5</sup> are employed, constrained real labor income growth for the poor. Job creation did not keep pace with the growth in the labor force, with new job creation occurring mostly in low productivity services

## **B. Macroeconomic and Structural Policies**

### **Fiscal, monetary and exchange rate policies**

**The government pursued an expansionary fiscal stance, at the cost of higher deficits.**

Fiscal policy has been significantly expansionary, as the authorities sought to support aggregate demand, while carrying through with plans to expand the country's infrastructure. The general government budget ran a deficit of 6.6 percent of GDP in 2016, a large increase from 3 percent in 2015 (Table 2). This gap resulted from increased current and capital spending, as well as from lower revenues, due to a decline in non-tax collections.

**Revenue to GDP fell, on account of lower non-tax proceeds.**

Total revenues amounted to 33.3 percent of GDP, down from 34.4 percent in 2015. Tax revenues increased by 1 percentage point to 25.2 percent of GDP as a result of better VAT administration and increased custom revenues. At the same time, there was a sharp decline in non-tax proceeds, by 2 percentage points to 5.9 percent of GDP, largely reflecting a high base effect after one-off receipt in 2015. The amount of grant support remained unchanged at 2 percent of GDP, which included both program and project grants.

**Expenditures increased considerably.**

Total expenditure surged to 39.8 percent of GDP from 37.4 percent in 2015. The higher current spending reflected the full year implementation of wage increases for teachers, adopted in September 2015, as well as increased expenses on goods and services, related to hosting the World Nomad Games and the CIS Summit. On the capital spending side, the increase stemmed from more intense implementation of road and energy infrastructure projects, financed by both foreign and domestic sources.

**The large ensuing deficit was financed through external borrowing.**

The fiscal deficit was mainly financed by external borrowing and a drawdown of government deposits. In particular, capital spending was supported through external borrowing (amounting to 4.2 percent of GDP, net of debt amortization). The remaining deficit was funded

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<sup>5</sup> I.e. households in the fortieth percentile of the income distribution

through a drawdown of government deposits, which declined by almost 30 percent to 10.6 billion of soms (2.3 percent of GDP).

**Fiscal expansion supported demand without endangering macro-stability in the short run, but it is not sustainable.**

Overall, the fiscal policy in 2016 was broadly appropriate in that it boosted domestic demand in the face of external headwinds. Moreover, exchange rate developments helped mitigate the impact of higher spending on inflation dynamics and debt ratios. While the stock of debt increased significantly (by 4.3 percent in US dollar terms), the debt-to-GDP ratio declined to 61.7 percent from 67.2 percent in December 2015. However, the flipside of these fortuitous conditions is that the country is significantly exposed to adverse exchange rate shocks that could tilt the debt outlook adversely.

**Table 2: General Government Budget**  
(in percent of GDP)

	2013	2014	2015	2016 Prel
Total revenues and grants	33.4	34.4	34.4	33.3
Total revenues	31.0	31.9	32.2	31.1
Current revenues	30.8	31.8	32.1	31.0
Tax revenues	25.2	25.1	24.2	25.2
Non-tax revenues	5.6	6.7	7.9	5.9
Capital revenues	0.2	0.1	0.1	0.1
Grants	2.4	2.5	2.2	2.2
Program grants	1.6	1.9	1.7	1.4
PIP grants	0.8	0.6	0.5	0.7
Total expenditure (incl. net lending)	37.1	38.5	37.4	39.8
Current expenditure	30.1	29.3	30.1	31.4
Wage	7.8	7.8	8.1	8.7
Transfer and subsidies	3.5	3.4	3.4	3.5
Social Fund expenditures	9.3	9.2	9.0	9.0
Interest	0.8	0.9	1.0	1.1
Purchase of other goods and services	8.7	8.1	8.6	9.2
Capital expenditure	7.0	8.4	7.2	8.3
o/w foreign financed	4.9	6.1	4.5	5.3
Net lending	0.1	0.6	0.1	0.0
Overall balance	-3.7	-4.1	-3.0	-6.6
Financing	3.9	4.1	3.0	6.6
External	5.1	5.5	3.8	4.2
Domestic	-1.2	-1.4	-0.8	2.4

Source: Ministry of Finance

**A relaxed monetary policy did not stimulate credit to the economy**

As pressures on prices eased, monetary policy was relaxed to shore up demand for credit, but it was relatively ineffective. The National Bank of the Kyrgyz Republic (NBKR) lowered its policy rate 4 times over the course of the year, in total by 500 basis points, to 5 percent. Following

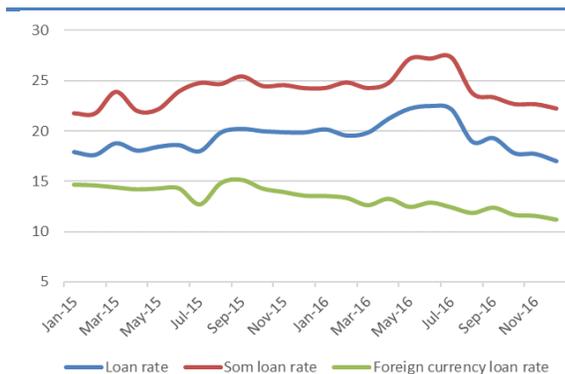
this reduction, the NBKR's overnight interest rates for loans and deposits were set at 6.25 percent from 12 percent and at 0.25 percent from 4 percent, respectively. This, together with NBRK regulation limiting foreign currency borrowing for a broad group of consumers, led to a gradual decline of the interest rate in the loan market (figure 7). As a result, the monetary base grew by 27.6 percent and the money supply increased by 14.6 percent in 2016. On the demand side, however, this increase has not led to growth of credit to economy, but rather to money growth outside of banks. Credit to the economy<sup>6</sup> shrank by 1 percent, pointing to a weak monetary transmission mechanism. At the same time the low credit uptake may also have reflected direct lending undertaken by the Kyrgyz-Russian Development Fund, which left commercial banks with a smaller and weaker pool of applicants.

**After appreciating in the first quarter the som remained stable**

The NBKR has maintained its managed float strategy, broadly allowing market forces to determine exchange rate, while intervening to smooth short term fluctuations. Following a sharp depreciation of the som in 2015, the currency regained significant ground over January-April. The appreciation of the som logically followed similar trends as the ruble and tenge, and was additionally buttressed by recovering remittances and the slowdown in imports. The som appreciated by 9 percent against the US dollar and by 4.4 percent, on average, against the ruble and tenge over the course of the year.

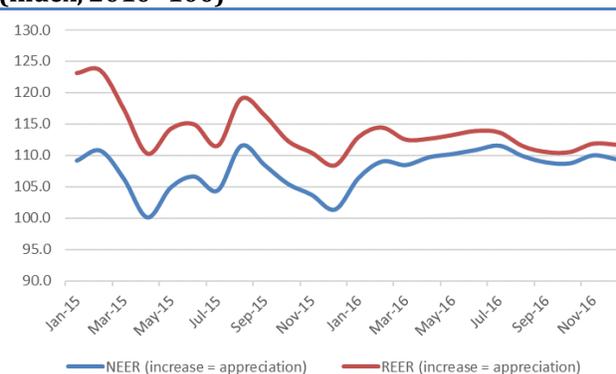
Similarly, the real effective exchange rate remained broadly stable most of the year after a slight appreciation in the first quarter (figure 8). International reserves grew by 10.7 percent amounting to US\$1.9 billion, or more than 4 months of imports as of end-December 2016.

**Figure 7: Loan rates (in percent)**



Source: National Bank.

**Figure 8: Nominal and real effective exchange rates (index, 2010=100)**



Source: National Bank.

<sup>6</sup> Not including non-banking financial institutions

## C. Economic Outlook and Risks

**Growth is projected to decelerate slightly in 2017 and to recover in 2018.**

The overall macroeconomic situation is expected to remain broadly unchanged in 2017, assuming exchange rate stability and no further deterioration in the external environment, especially in the economic fortunes of Russia and Kazakhstan. Overall growth is projected to decelerate slightly to 3.4 percent in 2017, reflecting a decline in gold production, while non-gold growth is projected to remain flat. In 2018, however, growth is expected to rebound to 4 percent owing to remittance supported-consumption, while the contribution from investment is expected to be neutral and from net exports negative.

**The government plans to consolidate its fiscal position over the next two years.**

Fiscal expansion has eroded fiscal buffers which must now be rebuilt. In spite of favorable exchange rate developments, the burden of debt is high, and a source of macroeconomic risk if not adequately managed. Given this, the government has committed to a significant fiscal consolidation effort over 2017-18, according to which the government deficit is to be reduced by almost 3 percentage points to fall below 2.0 percent of GDP in 2018 (excluding on-lending). The adjustment is expected to be expenditure-led, with capital spending (-2.5 pp of GDP) and the wage bill (-1.5pp of GDP) being the main components, as total revenue is projected to fall by 1.5 percentage points.

**The poverty rate is projected to gradually decline.**

Stable growth projections for agriculture and construction, and further increases in remittances, are likely to support rural poverty reduction during 2017-18. Real wages are projected to rise slowly in the private sector resulting in a slight reduction in urban poverty, where wage employment is more prevalent. Social transfers will continue to play an important role in driving poverty reduction in both urban and rural areas. A scheduled increase in pensions should have a positive distributional effect, given that pensions represent close to 15 percent of income among the poor. Finally, lower food prices in 2017 should also positively impact the purchasing power of households at the bottom of the income distribution. As a result, the national poverty rate is projected to decline to 31.7 percent in 2017 and 30.2 percent in 2018.

**A major policy challenge is to boost exports and investment through increasing the**

Although overall risks related to exogenous regional developments appear to have moderated, with higher oil prices and exchange rate stability, the country's economy and the welfare of Kyrgyz citizens remain highly exposed to remittances. Exchange rate developments could also affect trade patterns, with local producers already facing competition from Kazakh and other EEU producers, given the appreciation of the som relative to their currencies<sup>7</sup>. A major challenge,

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<sup>7</sup> While the tenge and the ruble also appreciated relative to the US dollar, they did so to a lesser extent than the som implying an appreciation of the bilateral exchange rate of the Kyrgyz currency with those of Kazakhstan and Russia

**competitiveness of the economy.**

therefore, is to accelerate the process of convergence of local production to EEU standards, currently inhibiting exports and favoring imports, as well as to otherwise boost the competitiveness of the economy and its attractiveness to investors. More than headline growth, it is the quality of the growth process and jobs linkages that are key for sustainable poverty reduction.

**Smart fiscal consolidation is needed.**

Lastly, while countercyclical fiscal policy has helped the Kyrgyz economy to weather the impact of the regional crisis, the much needed fiscal consolidation will entail painful adjustments and risks (particularly in an election year). Ensuring that fiscal consolidation measures are not derailed and not carried-out at the expense of key social programs will be a major challenge. In addition, it is high time for the authorities to tackle contingent liabilities, especially those related to the energy sector, as delays in planned energy tariff adjustments will imply a continued need for budgetary infusions in the sector.

**The energy sector needs reform, including to free up fiscal space.**

A difficult but critical area of reform is the energy sector. Not only does the economy need a better supply of energy, but it is also imperative to contain the fiscal pressure that weak sector finances impose on the budget. The current system of subsidized prices is inefficient and regressive and needs to be reformed.

## **D. Special Focus: The State of the Energy Sector and What to Do About It**

### **A Status brief of the energy sector**

**Kyrgyzstan's energy sector is struggling**

The state of Kyrgyzstan's energy sector is worrying, making reforms urgent and imperative. Financially, the system is losing money and kept afloat through significant support from the Republican budget. This, however, is insufficient to finance the investments that would be needed to maintain ageing equipment or invest in the capacity required to meet growing demand; and it comes at the expense of other key expenditures (better roads, education and other key services) and macro-stability (with a growing debt burden). Finally, the policy of subsidized prices, which comes at a very significant fiscal cost, mostly benefits large, wealthy consumers, in contradiction with its alleged social objective.

**Adequate access to power is fundamental for growth and well-being.**

Adequate and affordable energy supply is fundamental for economic growth, higher living standards, and social equity. The delivery of modern energy services helps to improve the quality of life for all citizens, expands opportunities for private businesses—and ultimately creates jobs. In the Kyrgyz Republic, energy is also a source of revenues when it can be produced in sufficient quantities to be exported, thereby helping to diversify the economy and open new markets. The purpose of

reform, therefore, should be to ensure that the potential of the sector to support growth, job creation and a better quality of life for Kyrgyz citizens is fully realized.

**Significant endowments are underexploited**

The Kyrgyz Republic has significant hydropower potential, which should permit the country to cover its own electricity needs, as well as export to neighboring countries. Exports can generate valuable revenues for the government, which could be reinvested to improve existing infrastructure, build new capacity, and support economic growth by increasing available electricity at affordable prices. Yet only a small fraction of Kyrgyzstan's hydropower potential is utilized today, and the country has become a net importer of electricity in recent years.

**The financial health of the sector is very poor**

Sector revenues have increased in the past two years, but the energy sector continues to lose money. The energy sector's debt exceeds KGS 90 billion (about 20 percent of GDP) and that figure is growing. Revenues in 2016 were 21 percent lower than the cost of energy production: this situation results in companies falling behind on repairs and maintenance, low service quality, and insufficient investment in future capacity. It is also a source of fiscal risk and macroeconomic instability.

**In a large part because of low tariffs.**

The Kyrgyz Republic has some of the lowest electricity tariffs in the world but the power sector can barely keep up with demand. Low tariffs translate into high demand, given weak incentives to save energy, and low supply given insufficient investment. Residential demand has increased almost 60 percent during the period 2007-2016 and the sector faces a growing supply gap, notably in the winter months, which will require significant investments in rehabilitating existing capacity and building new generation. In the meantime, growing domestic demand means that the country has less surplus power to export and in fact often resorts to costly imports.

**A broad package of reform is needed, including tariffs.**

To make the sector more sustainable, it is imperative to address inefficiency in production, curb rising demand, and realign tariff policies with these objectives. This will lead to a higher quality of life for Kyrgyz citizens. Scaling up energy efficiency on the demand and supply sides, combined with reforms that strengthens targeted assistance to low income households, will help create jobs, improve comfort and health, and increase the reliability and quality of energy services, all while keeping energy bills affordable.

## Summary of recent sector reforms and outcomes

**The GoKR has made important policy and**

Some of the key reforms have included:

- The establishment of an independent sector regulatory agency in 2014.

**institutional changes in the sector since 2014**

- The creation of a settlement center in 2015, and the implementation of a transparent revenue allocation mechanism across sector entities.
- The formation of a *National Energy Holding Company*, to which the shares of the principal energy companies were transferred in 2016, with the aim to improve the management and effective performance of the industry.
- The abolishment of the Ministry of Energy and Industry in 2015, with a transfer of policy making responsibilities to a new *State Committee on Industry, Energy and Subsoil Use* in 2016.

**For the first time since 2010, substantial tariff reforms have taken place in the past three years.**

These have comprised:

- The development of a Medium-Term Tariff Policy (MTTP) 2014-17, anchored in principles of cost recovery for the sector in the medium term<sup>8</sup>.
- The implementation of a two-tiered residential tariff, with the lowest tier tariff applied to a monthly consumption threshold of 700kWh.<sup>9</sup>
- The adoption by the new regulator of tariff setting methodologies for electricity as well as heating and hot water services<sup>10</sup>.

**But MTTP implementation has been inconsistent in practice.**

After 2014, the medium-term tariff path has been repeatedly revised:

- Electricity. Actual electricity tariff increases in 2015 and 2016 have not followed the original MTTP: the burden of needed tariff increases was shifted entirely to some large residential consumers and commercial and industrial users, while subsidies in the residential segment were left intact. After a 10% increase in residential tariffs in 2015, no tariff increases for households have taken place since.
- Heating. Heating tariffs followed the MTTP in 2014 and 2015 but reforms also stalled in 2016 and no further tariff increase took place.
- An official announcement was made by the government in 2016 that no tariff increase would take place for households for electricity and thermal power in 2017, deferring all further action to 2018.

**The financial results of the sector have improved over 2014-17.**

The improved financial performance reflected additional revenue generated through the tariff increases implemented in the non-residential sector, as well as favorable weather conditions in 2015 and 2016 (more rainfall and milder winters than in earlier years), which reduced the need for expensive imports. Moreover, distribution

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<sup>8</sup> <sup>8</sup> Cost recovery in the context of this note refers to annual cash requirements only, including debt service on CAPEX but excluding depreciation and other non-cash items; it may also not capture *needed* expenditures on OPEX and CAPEX.

<sup>9</sup> About 52 percent of total electricity consumption is in the lowest tariff category.

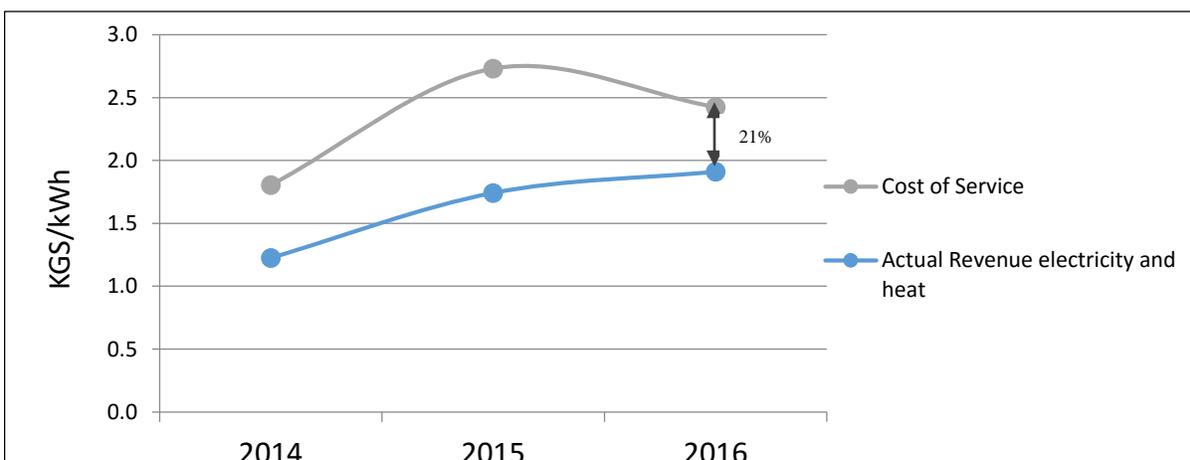
<sup>10</sup> A tariff setting methodology has also been adopted for the natural gas sector which is not covered in this note

**... but the financing gap remains very large**

companies also reported a drop in losses from 17-18 percent in 2014 to 12-13 percent in 2016.

As a result, the financing gap between cost of service and revenues has narrowed. On average, the revenues of the Energy Holding Company are now closer to cash requirements than in 2014 for the electricity and thermal power companies. In 2016, total energy sector revenue was 21 percent below the cost of service, a decrease from 32 percent in 2014. The overall sector deficit has dropped from KGS 9.3 billion in 2015 to KGS 4.9 billion at the end of 2016, which however remains significant.

**Figure 9: Energy sector cost of service vs. revenue (KGS/kWh)**



Source: World Bank calculations on the basis of techno-economic indicators for the sector.

**The challenges are daunting.**

These improvements notwithstanding, the sector still faces daunting challenges. The primary challenges include macro-fiscal risks, inadequate supply reliability and poor quality of service, high energy intensity and low efficiency, limited financial viability, and concerns about affordability and willingness to pay.

### Challenge 1 - Macro-fiscal risks

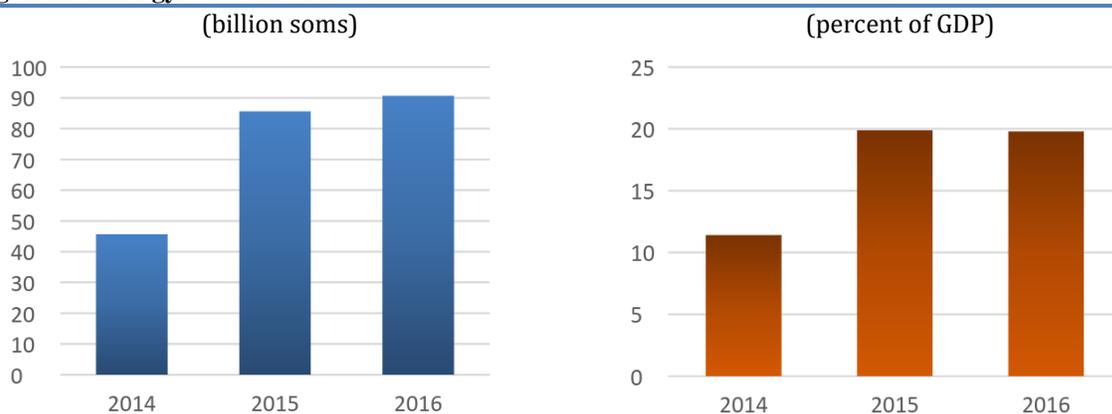
**The energy sector is deeply indebted**

Energy sector companies have accumulated very significant amounts of debt, which constitute a direct contingent liability for the budget. The cumulated stock of debt of energy sector companies, as of 2016, amounted to KGS 90.7 billion, an amount equivalent to 19.8 percent of GDP and 32.2 percent of the country's overall stock of public and publicly-guaranteed debt. Given the persistent cost recovery gap and the sector's considerable unmet need for new investment, repayment of this debt from energy companies to the State is hypothetical at best.

**... and currently unable to repay**

While energy sector debt currently appears as an asset in Government accounts, these assets should be discounted. Currently, the solvency of energy sector companies is only maintained through regular debt restructuring and roll-over, with no clear pathway toward equilibrium under the current framework.

**Figure 10: Energy Sector Debt**



Source: Ministry of Finance

Source: Ministry of Finance

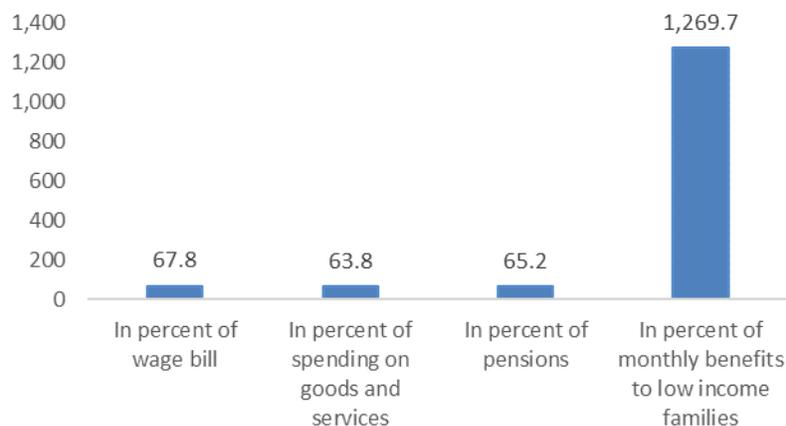
**State aid to the sector limits fiscal space**

The financial support of the State to energy sector companies significantly limits fiscal space. Since energy sector companies are unable to meet their spending needs out of own revenues, they require significant yearly transfers and loans from the budget. In 2015 and 2016, these loans amounted to KGS 42.8 billion and 5.2 billion respectively. On average, over 2015-16 the amounts on-lent to energy companies were equivalent to 67.8 percent of the wage bill, 63.8 percent of all expenses on goods and services, 65.2 percent of the total amount spent on pensions, and almost 13 times higher than the (yearly) amounts devoted to the Monthly Benefit to Poor Families (MBPF) program.

**And constitutes a significant source of fiscal risk**

Because sector assets are antiquated, risks of failure and breakdowns requiring emergency spending constitute a major source of risk for the budget. They also complicate the process of budget planning, adding unpredictability.

**Figure 11: The Fiscal Opportunity Cost of State Support to the Sector (average over 2015-16)**



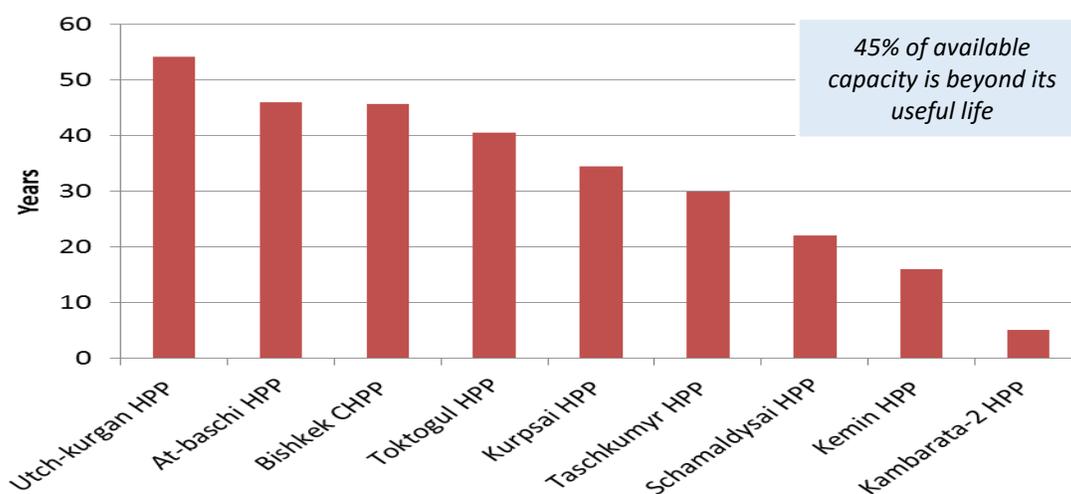
Source: Ministry of Finance

## Challenge 2 - Supply reliability and quality of service

### Sector assets are old and under-maintained

Old and under-maintained assets put energy supply reliability and quality at risk. Sizeable investments have been made to rehabilitate some of the most dilapidated sector assets, but 45 percent of available generation capacity is beyond its useful service life. The state of transmission and distribution assets exacerbates the risk of network failures; for instance, in 2016, Severelectro, the largest power distribution company, reported that about 40 percent of the 928 km of underground cables in Bishkek urgently needed replacement. In the district heating sector, most assets were commissioned 20 to 50 years ago, and are in poor condition.

**Figure 12: Age of Generation Assets**



Source: World Bank 2014 Energy Sector Note for the Kyrgyz Republic

**Old assets mean poor service quality and reliability.**

Chronic underinvestment, and under-expenditure on repairs and maintenance have led to poor service reliability and quality. Distribution companies reported an average of 43 outages per day between 2009 and 2012. In 2013, firms experienced an average of 0.9 outages per month, costing about 4 percent of sales value.<sup>11</sup> The largest HPP (Toktogul) experienced breakdowns in two consecutive winters (2015 and 2016) due to cable line breaks. Quality of supply is also poor, with more than half of the respondents in a 2013 survey indicating problems with voltage fluctuations/low voltage, and nearly one fifth reporting damage to electrical appliances because of poor supply quality.<sup>12</sup> Customer service also needs improvement. On a scale of 0-8, with 8 indicating total reliability of supply and transparency of the tariff.<sup>13</sup> Kyrgyzstan received 0; the average in Eastern Europe and Central Asia (EECA) was 5.2.<sup>14</sup>

**And supply gaps could materialize in winter if no action is taken.**

Reliability is most problematic in the winter, as there is an emerging gap between available winter generation capacity and growing demand. Residential demand is characterized by high seasonality. In 2016, households consumed an average of 286 kWh/month in summer and 721 kWh/month in winter. Winter demand accounts for 67 percent of total demand. The use of electricity for heating is a driving factor behind this seasonal consumption pattern. The winter supply gap is expected to grow to 883 GWh in 2030 if no action is taken. Even with the additional capacity expected to be commissioned in 2017 and 2018 from the rehabilitation of the Bishkek CHP plant (+300 MW) and Toktogul HPP (+200 MW), Kyrgyzstan may need to rely on imports in the winter. Higher reliance on imports is likely to have a detrimental impact on the sector's financial viability given the impact on the cost of service.

### **Challenge 3 - High energy intensity and poor efficiency**

**The Kyrgyz Republic is one of the most energy-intensive worldwide.**

The Kyrgyz Republic ranks among the 15 most energy-intensive countries worldwide. Its energy intensity has increased over 2010-2014 from 181 kgoe/\$1,000 GDP to 204 kgoe/\$1,000 GDP, and was about 23 percent higher than the EECA average in 2014. The high energy intensity aggravates the recurrent energy shortages, and also hampers the productivity and competitiveness of Kyrgyz companies. A 2013 World Bank Report (Growing Green)<sup>15</sup> found that the Kyrgyz manufacturing sectors is among the most energy intensive in EECA.

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<sup>11</sup> "Power outages in firms in a typical month (number)", World Bank, Enterprise Surveys (<http://www.enterprisesurveys.org/>).

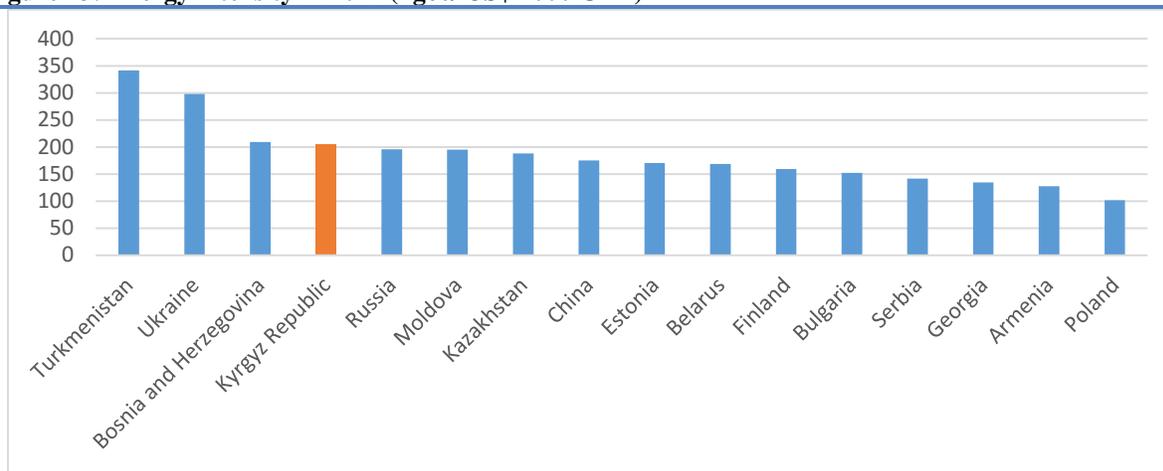
<sup>12</sup> Unison and USAID, "Analysis of Electricity Distribution and Consumption System in Kyrgyzstan," 2013

<sup>13</sup> This index includes the duration and frequency of power outages, mechanisms for monitoring and reducing them, and transparency and accessibility of tariffs.

<sup>14</sup> World Bank, Doing Business project (<http://www.doingbusiness.org/>).

<sup>15</sup> *World Bank, Growing Green: the economic benefits of climate action, 2013; Technical Background Report.*

**Figure 13: Energy intensity in 2014 (kgoe/ US\$ 1000 GDP)**

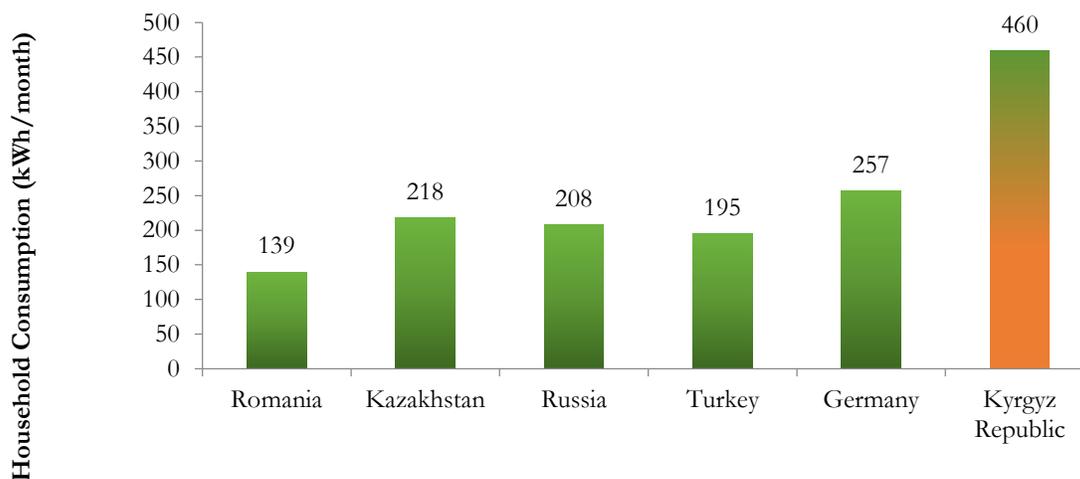


Source: WDI, latest available data from 2014

**Residential consumption is higher than Germany's.**

Residential electricity consumption is higher than in many other EECA countries. Over 2007-2016, residential consumption grew by 58 percent, while the number of customers only increased by 12 percent. The seasonal consumption pattern and the rapidly increasing electric load represents a major challenge to the already strained power system. While the comparatively high energy consumption is *inter alia* a reflection of inefficient buildings and insufficient price incentives, the growing seasonality further deteriorates supply reliability and service quality and requires imports from neighboring countries.

**Figure 14: Energy Consumption per Household, 2014**



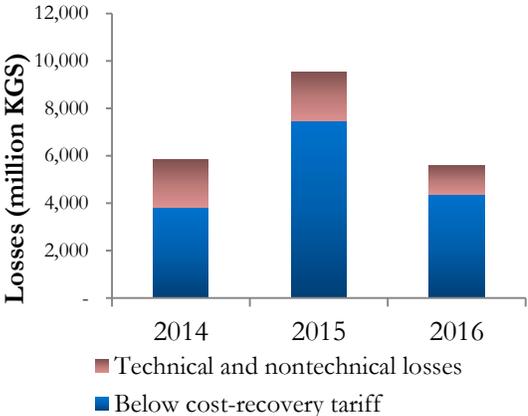
Sources: World Energy Council, "Energy Efficiency Indicators," <https://www.wec-indicators.enerdata.eu/household-electricity-use.html>; Kyrgyzstan Energy Sector Techno-Economic Indicators

## Challenge 4 - Financial viability shortfall

### Tariffs are too low for cost recovery

The sector continues to show a substantial revenue shortfall as end-user tariffs remain below cost-recovery levels. In 2016, revenue shortfalls due to below cost-recovery tariffs amounted to KGS 4.36 billion (1 percent of GDP). Transmission and distribution losses also remain high. Combined technical and non-technical losses were KGS 1.23 billion (0.29 percent of GDP). Compared to other countries in the region, electricity losses in the Kyrgyz Republic are high. In 2013, the electric system lost an estimated 20 percent of generation output in transmission and distribution losses, compared to 8 percent in Georgia, 12.3 percent in Armenia and about 15 percent in Tajikistan.

**Figure 15: Electricity Sector Revenue Shortfall**



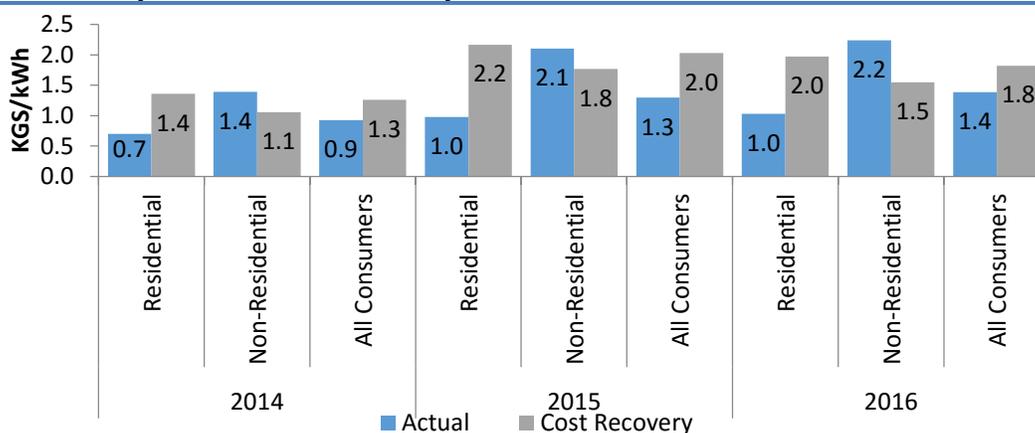
Source: World Bank calculations on the basis of techno-economic indicators for the sector.

### The bulk of the deficit is attributable to socially oriented tariffs.

In electricity, average end-user tariffs remain below cost-recovery levels, mainly due to the low residential tariff for consumption levels below 700 kWh<sup>16</sup>. By contrast, non-residential tariffs are higher than cost-recovery levels since 2015, and have driven the improvement of sector finances, placing the burden of the financial improvement of the sector on non-residential consumers. In the heating sector, while heat and hot water tariffs were significantly increased in 2014 and 2015, they remain far below cost-recovery levels.

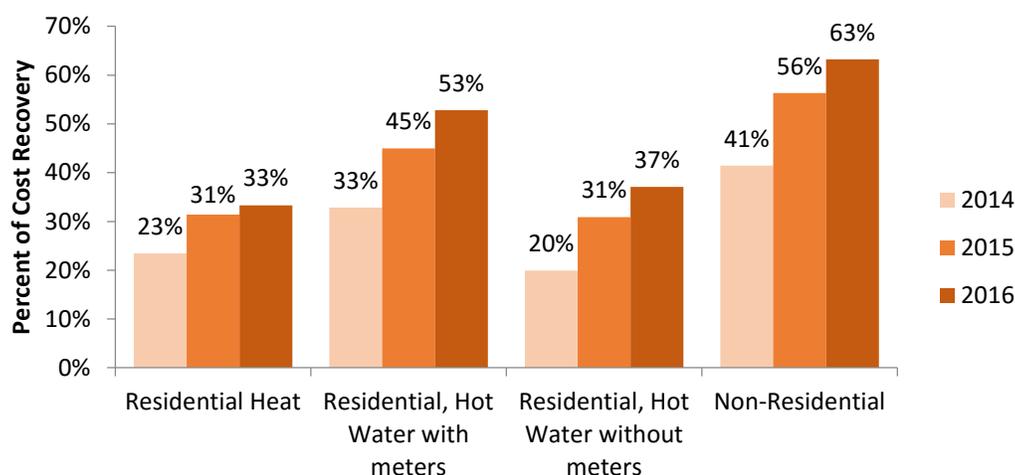
<sup>16</sup> Electricity consumption in the category <700kWh/month accounts for 81 percent of residential consumption and 52 percent of total end-user consumption

**Figure 16: Electricity - Actual vs. Cost-Recovery End-User Tariffs**



Source: World Bank calculations on the basis of techno-economic indicators for the sector.

**Figure 17: Heating and Hot Water - Actual Tariffs as a Percentage of Cost-Recovery Tariffs**



Source: World Bank calculations on the basis of techno-economic indicators for the sector.

**As a result, the sector loses money each year.**

Given the low tariffs energy sector companies accumulate significant financial losses year after year. Financial losses for electricity and heating companies reached KGS 5.9 billion, KGS 9.3 billion and KGS 4.9 billion in 2014, 2015 and 2016 respectively.

**Translating into more debt and under-maintained assets**

The sector's revenue shortfall is covered through significant fiscal transfers as highlighted earlier, but also at the cost of eroding assets and insufficient investment in the sector. In other words, the revenue gap is covered through a combination of steady accumulation of public debt and significant underspending on maintenance and investment in future generation capacity.

**In these circumstances**

Third party investment in the sector, in particular from the private sector, is unlikely due to the lack of creditworthiness of the sector companies. Studies show that the Kyrgyz Republic has pre-identified sites for the development of economically viable small hydro plants in

**private investment is unlikely.**

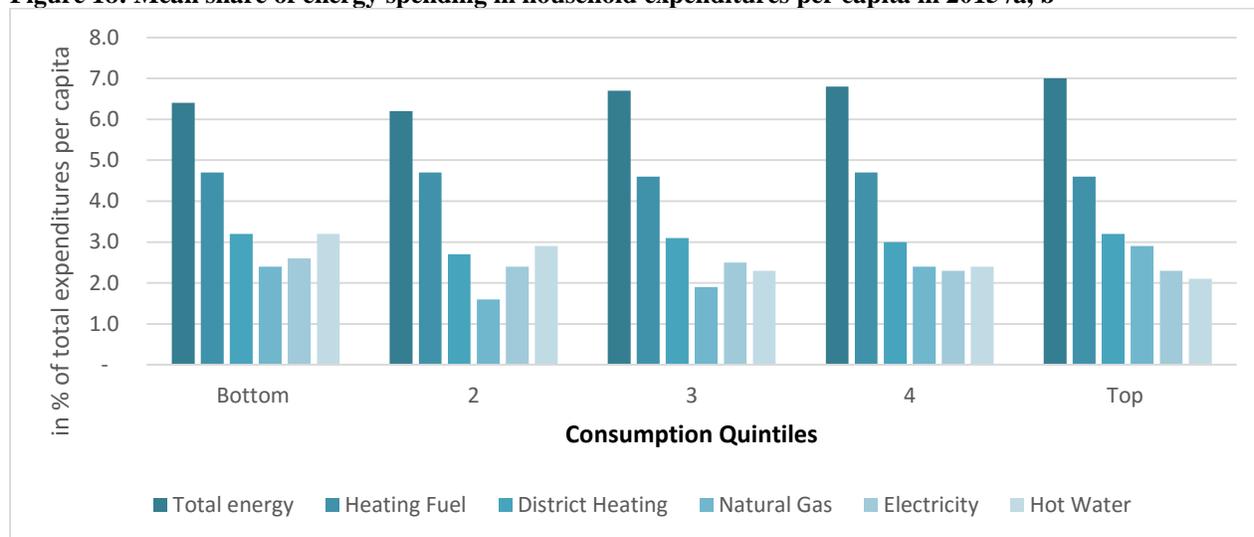
the order of magnitude of 200MW. Despite the existence of a legal and regulatory framework that grants preferential treatment to small hydro developers and a financially viable feed-in-tariff, it is unlikely that private investors will exploit this potential without additional guarantees from government. As long as the counterpart of the off-take agreements for privately generated electricity are distribution companies that are technically bankrupt, it is unlikely that reputable investors will take the risk of a long-term investment without additional reassurances and guarantees in the case of payment shortfalls. These financial safeguard measures necessarily increase the cost of investments and limit the pool of interested developers.

**Challenge 5 - Affordability and willingness to pay**

**Energy expenditures are small for households, even poor ones.**

Energy expenditures amount to a relatively modest share of total spending of households. Spending on electricity comprises between 2.3 and 2.6 percent of households' total expenditure across quintiles. For total energy consumption (excluding alternative sources such as firewood), on average, households spent 6.6 percent of their total expenditures in 2015. Households in the lowest quintile spent 6.4 percent and in the highest 7.0 percent of their total expenditure on energy.

**Figure 18: Mean share of energy spending in household expenditures per capita in 2015 /a, b**



Source: World Bank calculations based on Kyrgyz Integrated Household Budget Survey, 2015.

a/ Mean share is for households with a positive expenditure for that particular energy subcategory. The estimate excludes households with zero spending on a specific energy source. Thus, total mean energy expenditure is not equal to the sum of the individual energy components. b/ Heating fuel refers mainly to coal but also to other sources such as bottled gas and commercial wood.

**Subsidized tariffs are highly regressive and benefit mostly wealthy consumers**

The current tariff structure is highly regressive, contradicting its social objectives. The principal mechanism through which the State seeks to support low income consumers is through a “socially-oriented tariff”, below cost recovery, for residential consumption below 700 kWh. This threshold, however, applies to over 80 percent of residential consumption, thus benefitting a large proportion of consumers who do not need the subsidized tariffs and also benefitting disproportionately large consumers. Incidentally, the tariff structure is believed to incentivize fraud with small commercial users reportedly registering themselves as residential consumers to bypass the higher tariff category.

**Still certain categories are vulnerable to price increases and require protection**

Energy affordability is a concern for specific categories of the poor and urban consumers. Though the share of household income devoted to energy expenses is low by international standards, the impact of electricity tariff increases on poor rural households would be significant given that they have few sources of cash income. Moreover, given the seasonal nature of agricultural income, households dependent on farming have the lowest income during the winter when their energy consumption—and bills—are the highest. Likewise, changes in district heating tariffs would be especially burdensome for low income urban households. The urban poor face different problems than the rural poor including the difficulty of substituting electricity for alternative and cheaper sources of fuel.<sup>17</sup> Moreover, those urban residents connected to district heating must pay based on a formula and not on actual consumption. Thus, their energy expenditures are fixed and as prices rise, they have to scale back on other discretionary consumption items such as food, medicines, and other essentials.

**But the current safety net currently doesn't reach them well.**

The safety net is fragmented and offers modest support only to the extreme poor. The Kyrgyz Republic's safety net includes a cash transfer program targeted to the extreme rural poor, called the Monthly Benefit to Poor Families (MBPF). Though the MBPF represents an important building block of a safety net, it suffers from problems of low coverage, leakage, and inadequate benefits. In addition, there are other programs such as untargeted “categorical benefits” and a transfer program to help the disabled. In order to mitigate the impact of higher energy prices on the poor, vulnerable, and vocal population groups, the government has developed several blunt mechanisms such as increasing compensation to pensioners, public servants, and MBPF recipients

**Most people want better service but**

Consumers' willingness to pay is also not necessarily aligned with ability to pay, and the desire to have better services. A recent survey on public awareness of energy reforms showed that the public continues to see

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<sup>17</sup> Rural households have some coping mechanisms such as relying on alternative fuel sources such as wood or coal but these are inefficient and hazardous to the health.

**are unwilling to pay for it.**

high electricity prices as the major priority for government to address (21 percent of surveyed households).<sup>18</sup> When asked how electricity tariffs should be managed, 65 percent of respondents said tariffs should be decreased.

## Policy priorities

**Multifaceted reforms are urgently needed**

A mix of priority policy and investment actions are needed to address the challenges described above. The priority actions include the following:

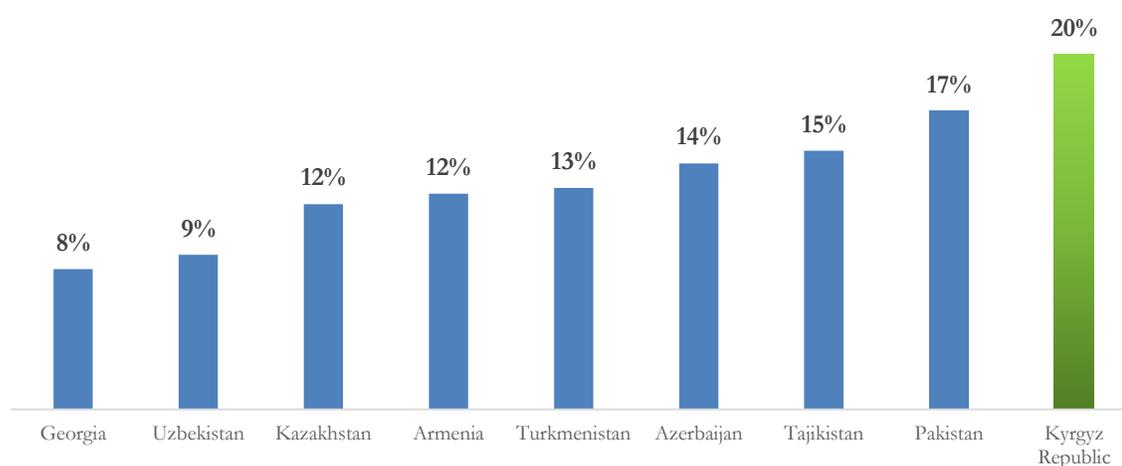
- Tariff reforms. Closing the cost-recovery gap to restore the financial viability of the sector, decrease fiscal exposure and ensure that sector companies have sufficient funds to invest in supply-side improvements (loss reduction) will not be possible without increasing tariffs. The implementation of the new MTTP 2018-2021 must be done with more consistency and a focus on increasing revenues from residential consumers who currently benefit from below-cost tariffs. Reducing the consumption threshold for subsidized electricity, for instance from 700kWh to 350kWh, would help to substantially reduce the deficit: such a reduction alone would result in an estimated 22 percent drop in the electricity deficit by 2020.
- Prioritizing investment and rehabilitation of sector assets. Progress has been made in mobilizing external financing for the rehabilitation of existing sector assets, but demand is growing and additional investments will be needed to meet winter peak demand. Such investments must be carefully prioritized, on a least cost basis, and include rehabilitation as well as new generation, transmission and distribution infrastructure. Demonstrating that the sector is generating sufficient revenues to cover costs will be instrumental in mobilizing additional resources from development partners.
- Loss reduction in combination with tariff reform. Priority investments should also include continued implementation and expansion of loss reduction measures, which will reduce the generation needed to meet demand, thereby improving supply adequacy and reducing the probability of outages. The larger distribution companies have already begun to implement loss reduction programs, including the installation of smart meters. Similar programs should be implemented, when possible, throughout all other distribution companies. However, it should

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<sup>18</sup>M-Vector, “Survey on Public Awareness of the Energy Sector Reforms in the Kyrgyz Republic” (2017).

be noted that loss reduction measures are not sufficient to substantially reduce the sector deficit and they need to be implemented in combination with tariff reforms. Even if losses were reduced to twelve percent (the average in the region) by 2020, sector simulations show that there would still be a deficit of KGS 5.9 billion in the electricity sector in the absence of tariff reform. Even with losses equal to 8 percent, the lowest in the region (recorded in Georgia) the deficit still reaches KGS 5.5 billion in 2020.

**Figure 19: Regional transmission and distribution losses (2013), in % of output**



Source: The World Bank, "World DataBank, World Development Indicators," Washington, D.C.: The World Bank. <http://databank.worldbank.org/data/home.aspx>.

- Strengthening governance and regulation. Governance and regulation improvements continue to be needed. At the sector level, future policy action should include the adoption of a least-cost sector planning process; the unbundling of the Energy Holding's accounts for different generation companies; and improvements to the revenue allocation scheme, as the current scheme gives distribution companies little incentive to reduce losses and improve financial discipline by not rewarding them for such efforts. At the regulatory level, the development and adoption of a revised, cost-recovery level MTTP is important for the 2018-2021 period, together with staying the course on actual implementation of the MTTP. The energy sector regulator will also need to strengthen its monitoring and enforcement of key performance and quality indicators. In the longer term, the option of revising energy and electricity laws to account for the

changing nature of sector institutions (recently established regulator, newly created energy holding and State Committee) should be considered to provide greater clarity on the remit of the entities and strengthen their decision-making capacity.

- Strengthen the protection of vulnerable households. The government has limited capacity and fiscal resources to have a broad safety net program to reach all the poor in the country (although addressing the revenue gap in the sector would reduce the need for budgetary transfers and hence increase fiscal space significantly). Thus, in the short run, it should devote its effort to strengthening the MBPF program, which targets the extreme poor, and rationalizing and scaling-back categorical benefits. In the short- to medium-term, the poor can be helped by (i) having a well-designed and targeted lifeline tariff, since it is the easiest and most practical way of mitigating the impact of tariff increases of the poor; and (ii) adopting a mechanism to help households smooth energy payments annually to prevent bunching in winter months. In the longer term, the social protection system should move away from categorical benefits, and focus on supporting the vulnerable and poor. The efficiency of the social protection system could also be greatly improved by simplifying what is currently a complex system of top-ups and a multiplicity of small programs that are costly to administer.
- Communication and Outreach. The government fears a political backlash from raising tariffs given the population's perception of mismanagement of the sector—and the reality, where they receive unreliable services. Thus, any outreach efforts have to include a mechanism of using evidence that draws the linkage between higher tariffs, better sector management and stronger protection of poor and vulnerable.

**Annex 1: Selected Macroeconomic and Social Indicators, 2014–2019**

	2014	2015	2016	2017	2018	2019
	Projections					
(Percent, unless otherwise indicated)						
<b>National Income and Prices</b>						
Nominal GDP (bln. of soms)	400.7	430.5	458.0	491.2	533.6	580.1
Nominal GDP per capita (US\$)	1,266	1,109	1,073	1,138	1,162	1,215
Real GDP growth	4.0	3.9	3.8	3.4	4.0	4.8
Real non-gold GDP growth	5.0	4.9	3.7	4.3	4.9	5.3
Private consumption growth	3.0	-6.0	2.2	2.5	3.2	3.5
Gross investment (percent of GDP)	29.2	29.4	30.1	32.1	32.5	31.5
Consumer price inflation, year-end	10.5	3.4	-0.5	4.8	5.0	5.5
Consumer price inflation, period average	7.5	6.5	0.4	3.6	4.0	4.0
Real effective exchange rate (2000=100)	120.3	108.4	111.7			
(Current US\$ millions, unless otherwise indicated)						
<b>External Accounts</b>						
Merchandise exports, <i>of which:</i>	2,483	1,619	1,594	1,659	1,717	1,837
Gold exports	717	665	771	732	696	751
Merchandise imports	5,290	3,860	3,680	3,957	4,185	4,324
Current-account balance	-1,191	-742	-616	-848	-855	-773
as percent of GDP	-15.9	-11.1	-9.4	-11.7	-10.9	-9.1
Foreign direct investment, net	233	1,009	430	489	519	554
Total official international reserves	1,958	1,778	1,969	2,089	2,217	2,383
External debt, as percent of GDP	80.5	94.5	92.6	91.8	90.9	88.9
(Percent of GDP, unless otherwise indicated)						
<b>Consolidated Fiscal Accounts</b>						
Revenues	34.4	34.4	33.3	33.5	31.9	31.0
Expenditures	38.5	37.4	39.8	38.2	36.1	34.1
Overall fiscal balance	-4.1	-3.0	-6.6	-4.7	-4.2	-3.1
Primary fiscal balance	-3.2	-2.0	-5.4	-3.5	-2.9	-1.8
Total public debt	53.6	67.2	61.4	62.8	63.9	63.2
(Percent, unless otherwise indicated)						
<b>Monetary Accounts</b>						
Base money growth	-11.9	4.0	27.6	11.1	10.3	9.9
Real growth of credit to the private sector	43.6	17.2	-0.8	12.7	12.3	13.0
Policy rate	10.5	10.0	5.0			
<b>Social Indicators</b>						
Population, total (millions)	5.8	6.0	6.1	6.1	6.2	6.3
Population growth (percent)	2.0	2.1	2.1	1.1	1.1	1.1
Unemployment rate (percent of labor force)	8.0	7.6	7.6			
Poverty rate, international (percent of population)	29.2	32.9	32.8	31.7	30.2	28.3
Inequality – Gini coefficient	[tba]					
Life expectancy (years)	[tba]					

*Sources:* World Bank staff calculations and estimates based on official data published and provided by the authorities.