Statement by Girmai Abraham  
Date of Meeting: December 4, 2001  

KYRGYZ REPUBLIC: Country Assistance Strategy Progress Report; Interim National Strategy for Poverty Reduction (INSP); Joint IDA/IMF Staff Assessment of the INSP  

We wish to thank staff for their frank assessment of the Kyrgyz Country Assistance Strategy Progress Report, the INSP and RJSA. We note that despite some policy slippages the economy did make some progress. Judging from their past record of implementation, we feel comfortable about the authorities’ strong commitment to maintain the momentum of the reforms.

On the economic front, the economy had registered a strong and sustainable growth with the GDP growing at 7 percent in 1996 and 9.9 percent in 1997. However due to regional and domestic financial crises, armed insurgency and other natural disasters performance weakened in 1998, regaining its strength afterwards as evidenced by the rebound in growth rates since 2000 and abating inflation to single digit. To maintain and improve on the achievements so far made, particularly in light of the September 11 events, the country would no doubt need adequate support from the Bank and other partners.

On the social sector, the credible economic growth has not lead to the improvement of the living standards of the majority of the populace. Poverty levels still remain very high with widespread inequality and unsustainable debt. We are, however, encouraged that the government intends to reduce the volume of its public investment portfolio (PIP) while at the same time improve the investment climate. This is important for increasing direct private investment flows, which are critical for economic and social development and hence to tackling poverty as outlined in the Interim National Strategy for Poverty Reduction (NSPR). Given the high level of the private sector contribution to GDP, which exceeds 85%, FDI flows are extremely important for the economy. We wonder whether the modest 7 percent private investments to GDP ratio will enable the country to meet its development and poverty reduction targets.

We urge staff to work closely and provide the technical support necessary for helping the authorities in mobilizing FDI needed for developing the private sector. Another area of concern is the turnover rate among qualified manpower. Sufficient technical support will be needed not only for the preparation of the NSPR and new CAS but also for capacity building in other key areas.
All the reforms and strategies identified in the INSPR may not be sufficient to improve the economy and reduce poverty in the absence of a debt work out for the national debt, estimated at $1.7 billion. We agree with both staff and government concern that unless the current high level of external debt service is reduced through concessional external debt restructurings in the context of the Paris Club and Multilaterals, the implementation of the NSPR would be seriously impaired, particularly achieving poverty reduction plans. Given the good track record of the Kyrgyz authorities in implementing economic reforms, we expect that all creditors, including the Bank, the Fund, the Paris Club and other Multilaterals should extend concessional external debt restructuring to enable the country achieve the economic and poverty reduction objectives.

In the event that concessional restructuring of the debt is unobtainable, we agree with the staff position that HIPC support may be inevitable. We expect to see a clear strategy on rescheduling the debt problem in both the NSPR and new CAS.

We find the proposed Rural Water and Sanitation Project consistent with the National Plan for Irrigation and critical for poverty reduction. We therefore strongly support it.