Board Meeting of May 7, 1998  
Statement by Juan L. Cariaga

Kyrgyz Republic - Country Assistance Strategy

Overview

We would first express our appreciation to Management and staff for this objective assessment of the developments in the Kyrgyz Republic in recent years. This joint IBRD/IDA/IFC Country Assistance Strategy (CAS) comprehensively describes the most important achievements in the economic and social field and establishes a basis for implementation of its agreed objectives. Although we endorse this CAS and the Irrigation Rehabilitation and Agricultural Support Services projects at the levels proposed, we would also like to offer some comments that we hope will be useful:

General Considerations

First, we would like to congratulate the authorities for the impressive economic growth achieved in the last two years. Kyrgyzstan has successfully completed a three-year ESAF arrangement with the IMF. Its progress in the transition to a market oriented economy is all the more impressive when the turbulence and challenges of recent years is taken into account.

As a result of these efforts, the strong reforms in trade and price liberalization and the introduction of a market exchange rate we have seen the stabilization of the economy. This is reflected in three main areas: (i) inflation declined from 35 percent in 1996 to 15 percent during 1997; (ii) the fiscal deficit no longer requires inflationary borrowing from the central bank; and (iii) GDP grew 7 percent per year in 1996 and 1997.

However, it is not yet very clear if this economic growth represents a permanent change in trends or is perhaps a short-lived improvement after years of depressed levels of production. The CAS describes a number of unique factors that contributed to this growth that are unlikely to occur again in the future. Among these are an increase in gold production, very favorable weather conditions and successful distribution of land shares and liberalized market pricing.

We also welcome the full implementation of the policy measures identified in the previous CAS. With the exception of public utility pricing and land registration reform, the list of structural reform
policy measures identified in the 1995 CAS and implemented is impressive. These include privatization and enterprise reforms, agricultural privatization, financial sector reforms and public sector resource management improvements.

Nevertheless, already high levels of poverty have increased and growth prospects are difficult. A number of important challenges remain. The private sector has not yet reached a point where it is contributing fully and numerous weaknesses in governmental institutional capacity remain.

Increased poverty and unemployment are not restricted to those countries making the transition from centrally planned to market oriented economies. Nevertheless, we have noticed that this seems to be a similar pattern that emerges as we consider CAS proposals for many of these countries. Much of this may be attributable to the demands of economic rationalization as bloated government bureaucracies are downsized and inefficient state-owned industries are privatized or closed. However, we wonder if the Bank has adequately investigated these aspects, as well as what steps the government or the Bank should take, in order to ameliorate such effects. Could staff comment on whether the Bank is providing assistance for social safety nets or similar programs.

It is in this regard that we welcome the Kyrgyz authorities’ renewed commitment to addressing the problem of poverty by declaring 1998 as “the year of fighting poverty.”

The CAS strategy addresses these issues. Strong and continued economic growth is crucial due to the growing problem of poverty. While progress during the last two years has been good, the uncertainty as to whether it may not be a short-term phenomenon reinforces the need to deepen reforms in order to achieve and maintain higher rates of economic growth.

To contribute to this objective, the privatization of remaining state owned companies appears to be of great importance. In addition to its budgetary benefits, the acceleration of this process will hopefully encourage and attract needed foreign investments. Moreover, the elimination of remaining controls can also be expected to contribute to attracting higher levels of foreign direct investment, improving development of the private sector.

The agricultural sector represents 40 percent of economic activity and it appears to us that the priority being given to agricultural and the revitalization of agro-industry is correct. The two projects under consideration today, the Agricultural Support Services Project and the Irrigation Rehabilitation Project, merit our support.

We also note that seven investment projects for following years also support the agricultural sector, as does a land registration project to complete the land reform. Two adjustment projects (for state pension reform and private sector investment) contributes to this.

The Bank is thus better able to support the government’s primary goal of sustained growth, reducing poverty through investments to
improve basic social services, improved governance, and strengthened public finances. As such, we agree with Bank’s strategy and objectives.

Kyrgyzstan has maintained a high case lending scenario for a number of years now. It has successfully prepared and is implementing the complete high case lending program of the 1995 CAS and we believe merits the proposed continuation of this high case lending.

We were pleased to see the progress that Kyrgyzstan is making in its transition to a market economy and understand the many difficulties it has had to confront in this adjustment. Of particular importance, we believe, are the extensive consultations and discussions held with many different organizations and groups in the preparation of this CAS. The contributions of the Resident Mission to promotion of Government ownership are also very welcome, as is the increased IFC-EDI presence.

Finally, we would like to wish the Government of Kyrgyzstan and its people every success in the implementation of this Country Assistance Strategy and express our hopes that it will bring important economic growth and developmental benefits soon to all the people of Kyrgyzstan.