Assessing Coherence of Macroeconomic and Social Policies in the Kyrgyz Republic: Simulation Results

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Background

- MAMS model for the Kyrgyz Republic developed in 2009-2010 and updated in 2012-2013
- UNDESA/UNDP-supported training program for government/academia technical group
- Policy notes prepared by training participants based on simulations using MAMS and micro-simulation module

Country Policy Context

- National Strategy of Sustainable Development (NSSD) of the Kyrgyz Republic for 2013-2017
- Growth strategy based on large-scale “national projects”, i.e. public investments into infrastructure and FDI
- Macroeconomic stability and limits on public borrowing

  - government budget deficit < 5% GDP

  - public external debt < 60% GDP
- Policies aimed at improvement of public social spending efficiency

Scenarios for Simulation

- Base scenario: “business as usual”
- GDP growth rates for 2009-2012 replicate actual ones; for 2013-2020, GDP growth rate is set at 5% (about average for the last decade)
- Four mixed government/academia working groups
- The groups developed scenarios, which:

  - reflect important features of NSSD, and

  - demonstrate capabilities of MAMS/micro-simulation software

Public Investments, Growth and Government Debt

- Intervention – increase in public infrastructure investments

	Scenario	
	Base	Investment
	Annual average for 2013-2020	
Public investments into infrastructure, % GDP	1.3	15.4
GDP growth rate, 2013-2020, %	5.0	5.75
Government budget deficit, % GDP	1.2	14.6
	2020	
Government foreign debt, % GDP	35.5	115.8

- Modest impact on growth rates – foreign equipment and labor force used in investment projects
- Public debt level well above the policy ceiling

Investment-led Growth and Poverty Reduction

- Intervention – simultaneous increase in public infrastructure investments and FDI

	Scenario	
	Base	Investment
	Annual average for 2013-2020	
Public investments into infrastructure, % GDP	1.3	15.4
FDI, % GDP	0.5	2.3
GDP growth rate, 2013-2020, %	5.0	5.81
	2020	
Poverty rate, %	14.9	13.2

- Poverty reduction under base scenario (2009 value = 31.7%)
- Little additional poverty reduction due to investments

Efficiency Improvement vs. Increase in Spending in Education

- Interventions: 1) exogenous improvement in education spending efficiency with no increase in spending, 2) increase in efficiency + additional spending

	Scenario		
	Base	Efficiency	Efficiency + spending
Public expenditure on first two education cycles, annual average for 2013-2020, % GDP	4.0	3.2	6.4
MDG2 in 2020, %	86.5	87.3	95.0

- Improvement in efficiency allows to save money, but gives little progress towards MDG2 (2009 value = 83.9%)
- Substantial increase in spending is needed for MDG achievement by 2020

General Growth vs. Targeted Investments in Health

	2009	2015/2020
MDG4, cases/1000 live births	29.3	10.4
MDG5, cases/100,000 live births	63.5	15.7

- Interventions: 1) moderate increase in health spending, 2) increase in spending sufficient for MDG4-5 achievement

	Scenario		
	Base	Spending increase	MDG4-5 achievement
Public health expenditure, annual average for 2009-2020, % GDP	3.2	4.1	10.9
MDG4 in 2020	23.4	15.6	7.8
MDG5 in 2020	47.5	33.6	15.7

Summary

- Growth helps, but, taken alone, can’t provide for achievement of social development goals
- In the medium-term, public infrastructure investments (if based on imports) modestly contribute to growth
- Borrowing for public infrastructure projects is associated with a risk of quick debt accumulation
- Infrastructure investments’ impact on growth may be better visible in the long-term

Summary (2)

- Income poverty reduction seems to be most sensitive to private-sector-led growth
- In some cases, too ambitious development goals are to be revised
- Education and health indicators seem to be very much sensitive to public spending levels, so education and health spending is to be prioritized

Thank You!