



KYRGYZSTAN

Public Expenditures on Education and Health in the Kyrgyz Republic before and during the Global Financial Crisis

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Contents

- Country background and periods in its recent development history
- Pre-crisis economic and fiscal developments
- Macroeconomic and fiscal situation in 2009-2010
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Country Background

- Located in Central Asia, population – 5.5 million
- GDP per capita – USD2,283 PPP (2009); low income country according to the WB classification
- Important dates in the country development:
 - 1991 – independence
 - 2005 – change of political regime
 - 2006-2008 – gradual stabilization and growth
 - 2009 – economic crisis
 - 2010 – recovery interrupted by the second change of political regime and violent internal conflict
- The paper covers 2007-2010

Economic and Fiscal Developments before the crisis

- Good economic growth (with rate $>8\%$) in 2007-2008 driven by remittances, exports and re-exports
- General government revenues (GGR) at $\approx 30\%$ GDP; key sources – taxes on imports (33% GGR), pension contributions, foreign grants
- General government expenditures – 31% GDP in 2007, 29% GDP in 2008
- Positive surplus of the GG budget in 2008 for the first time in the country's history
- Major changes in fiscal policy at the end of 2008 (new Tax Code, hike in public investments)

Macroeconomic and Fiscal Situation in 2009

- Crisis led to reduction in imports, remittances and re-exports, which resulted in fall in GG revenues and arrears on government payments
- Russian grant and loan (in total equivalent of 10% GDP) in spring 2009
- Increase in public recurrent and capital expenditure – election-induced salary/pension increases, hydropower station Kambarata-2, other public investment projects
- GG revenue went up to 32% GDP, expenditure to 36% GDP
- Energy sector reform at the end of the year accompanied by large compensations to vulnerable groups of the population

Macroeconomic and Fiscal Situation in 2010

- Conflicts in 2010
- Negative impact of the events on many sectors of the economy, but less so on fiscal situation as affected sectors pay little in taxes
- Negative external shocks (Russian export duties on fuel, border closures, outflow of tourists etc.)
- As a result, GDP decline (by 1.4%) and high inflation (12-month CPI growth of 19.2% at the end of 2010)
- Hike in GG expenditure (39% GDP) and deficit (7% GDP) – unsustainable in the mid-term
- Changes in the functional structure of GG expenditures

Education System in Kyrgyzstan

- Well-developed and expensive system inherited from the Soviet period
- Growing number of students in the country
- Conservative policies aimed at maintaining the system
- Still high but falling enrolment rates for primary and secondary education
- Changes in the student-to-teacher ratios and teachers' salaries
- Insufficient quality of education
- Sector reform programs exist, but these suffer from insufficient prioritization and lack of resources

Trends in Budget Financing of Education

- In 2007-2010, public expenditure on education decreased in % GDP and stagnated in real per capita terms
- Share of spending on primary and secondary education increases
- Reaction of education expenditure on the crisis:
 - Share of salaries in total expenditure increases, and capital expenditure decreases
 - Insufficient government resources are increasingly supplemented by direct household spending on education

Equity, efficiency and longer-term trends in the education financing

- Significant regional inequality in the education outcomes despite redistributive financing policies (categorical grants)
- International comparisons indicate that Kyrgyzstan spends large resources on education in relative terms, but very little in absolute terms
- In the mid-term, the main task in the education financing seems to be to increase resources available for the sector (e.g., by securing at least current level of expenditures in % GDP) and to improve education spending efficiency radically

Health Care System and Reforms in the Health Sector

- Unlike education system, the health care system in Kyrgyzstan went through a substantial reform
 - Restructuring of the health care system including massive adjustments in the number of health establishments, beds in hospitals, and staff
 - Changes in the financing mechanisms in the sector: MHI, single payer system, output-based, patients' copayments, State Benefit Program (minimum guaranteed package of services)
 - Strengthening of public health service
 - Changes in the sector management system
- Health indicators demonstrated mixed performance with general trend of improvement in 2002-2009

Trends in Financing of Health Care

- Public expenditures on health have been increasing in recent years (apart from 2008)
- PHE in 2009 went sharply up
- Funding increases have been directed mostly to the State Benefit Program with increases not only in salaries, but also in spending on medicines and capital investments
- By preliminary estimates, PHE have increased further in 2010
- Private health expenditures are estimated to be of the same order as public ones; PvtHE have also grown considerably in 2009

Equity and Efficiency in Health Financing

- Recent spending increases have been accompanied by improvements in regional distribution of PHE
- Still, many barriers for access to health services remain
- [International comparisons](#) reveal relatively high PHE level in % GDP, but very low absolute spending
- Analysis of child mortality determinants suggests that efficiency of public health expenditures in Kyrgyzstan is higher than average for transition countries
- Focus on efficiency in the medium-term

Conclusions

- The Kyrgyz economy was growing well in the pre-crisis period; government revenue and expenditure have grown considerably
- The impact of the global economic crisis on the Kyrgyz economy has been transmitted mostly through remittances and foreign trade
- 2010 political events led to destabilization of the economic and fiscal situation in the country; public expenditure and budget deficit increased dramatically
- Medium-term fiscal prospects are not very optimistic: GG budget expenditure and deficit are to be cut to a sustainable level

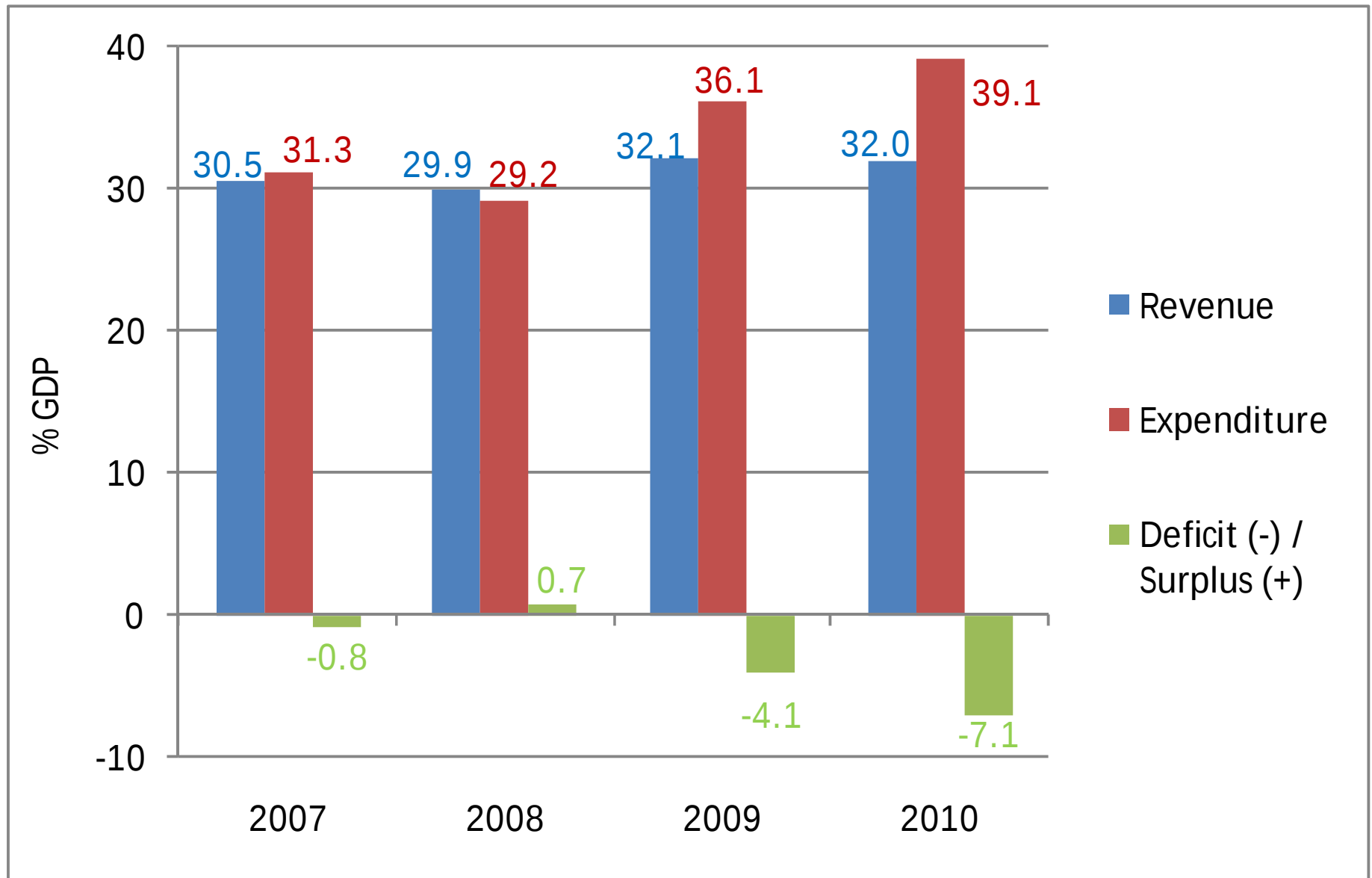
Conclusions (2)

- During the crisis, public education spending has substantially decreased, especially investment programs
- On the contrary, public health expenditure has increased
- Health system performance in terms of outcomes, equity and efficiency seems to be much better in comparison to the education system
- So, reformed sector—health care—did relatively well during the crisis, while non-reformed sector—education—suffered much
- Both sectors face an acute problem of deep and chronic under-financing

Recommendations

- Preserve the currently achieved levels of public expenditures on education and health in % of GDP
- Intra-sector redistribution of resources and their concentration on priority programs is necessary
- The role of households' resources in financing of health care and education is to be increased
- The role of private sector in provision of services in both sectors is to be increased
- Better linkages between financing of education and health establishments and their performance are to be established

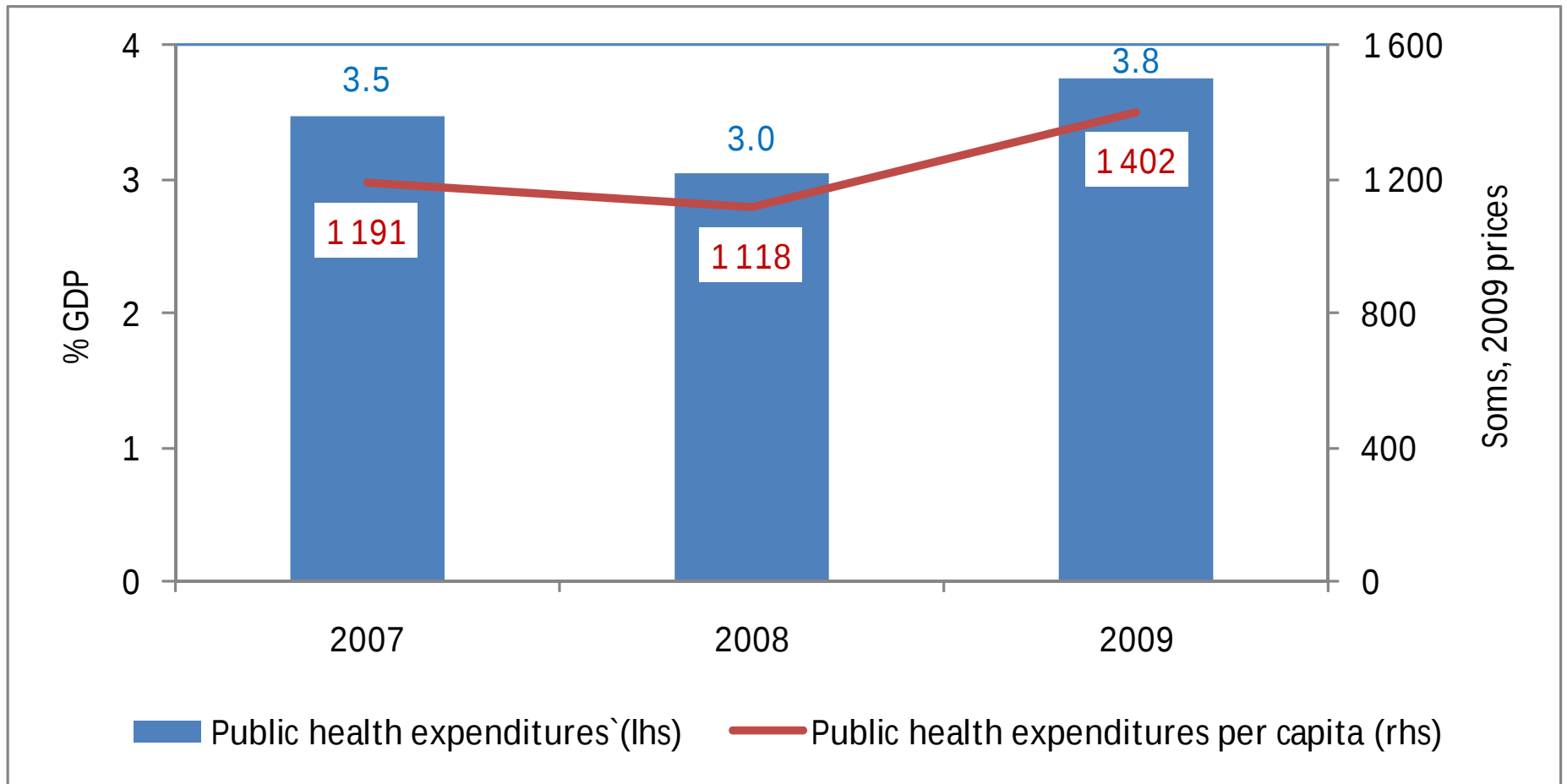
General Government Budget



Selected Health System Indicators

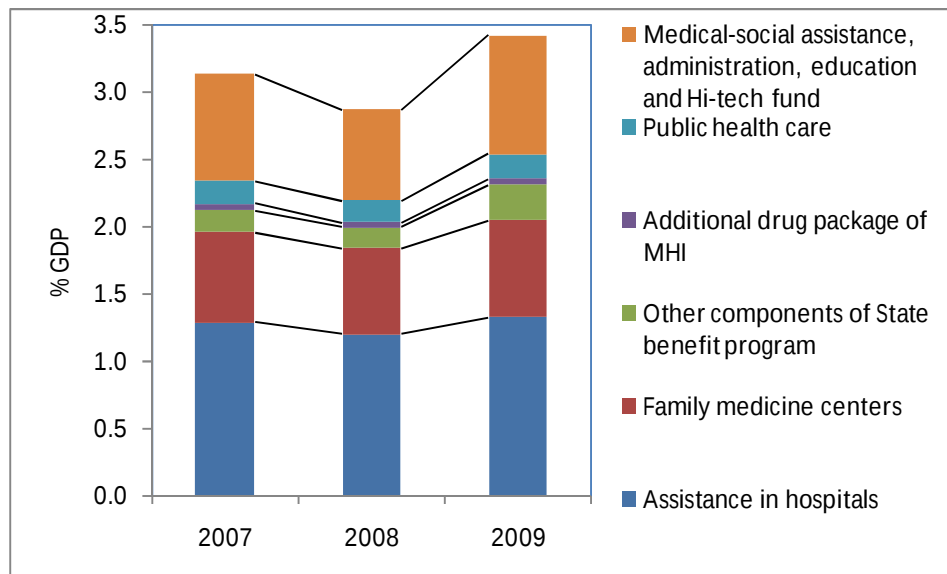
	1990	2002	2009
Number of hospital beds, per 1,000 people	9.3	5.9	5.2
Patients treated in hospitals, per 100,000 people	2.3	1.5	1.6
Life expectancy at birth, years	68.4	68.2	69.1
Death rate associated with tuberculosis, per 100,000 population	6.7	20.1	11.0

Public Health Expenditures

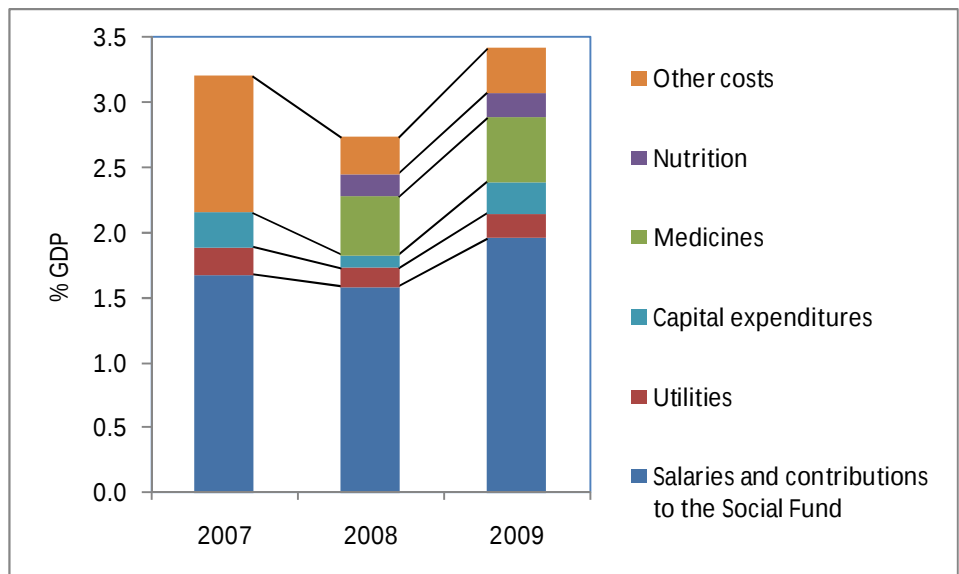


Structure of Public Health Expenditures

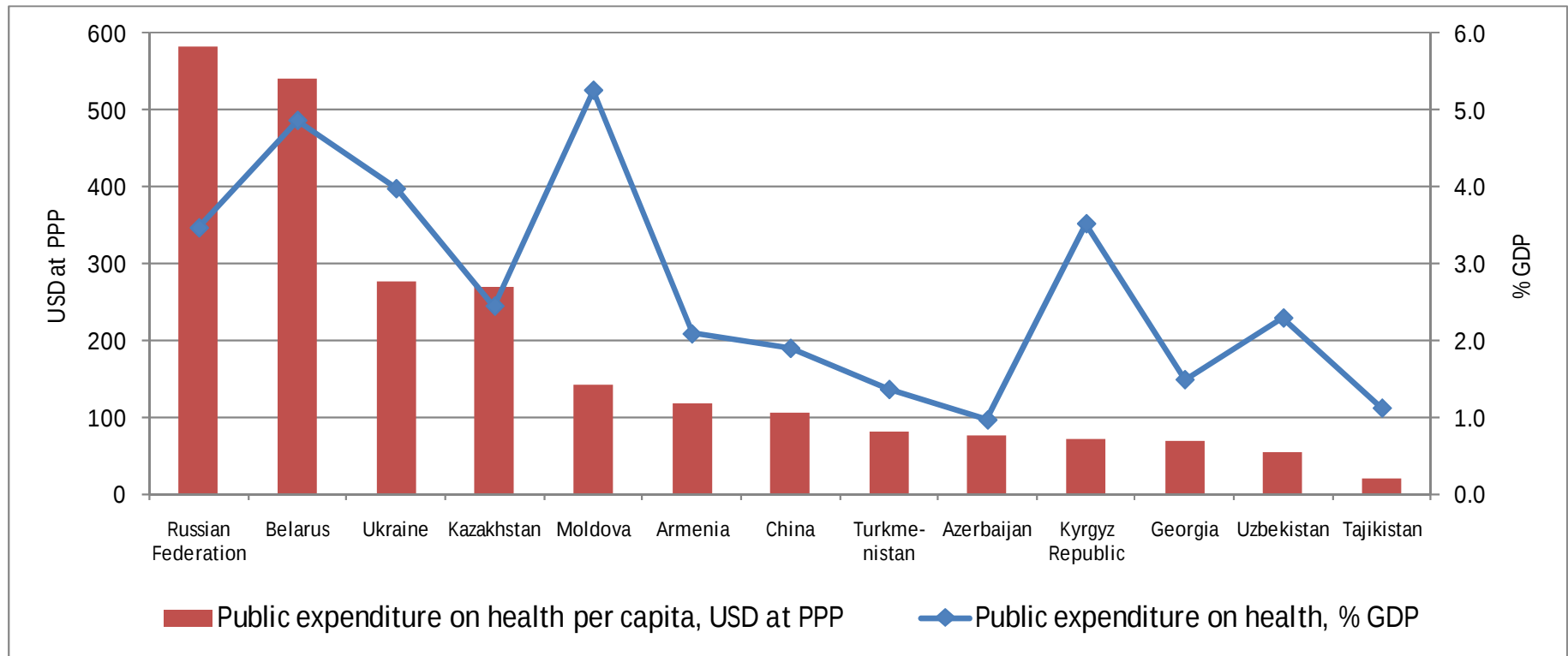
By program



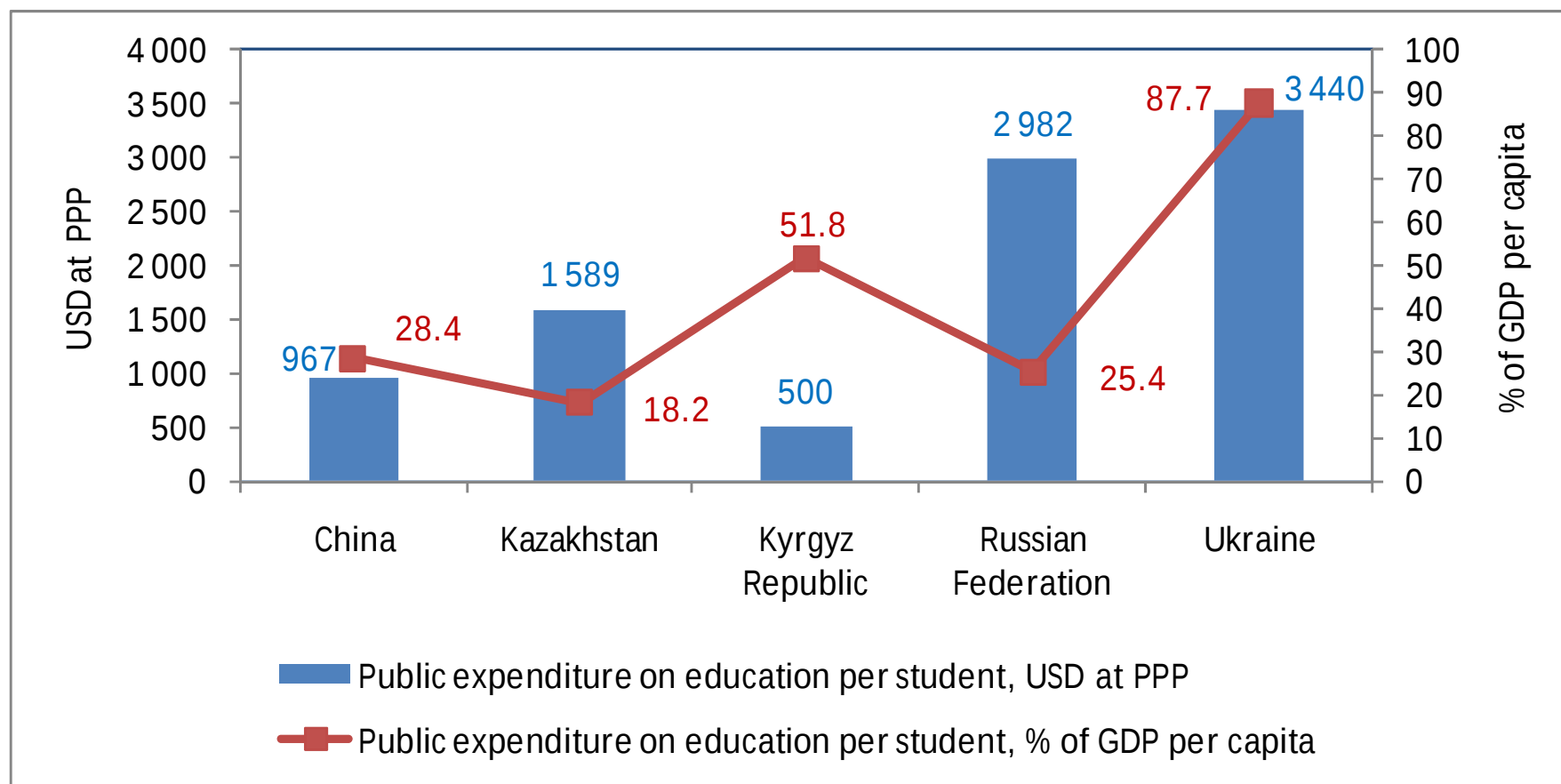
By economic classification



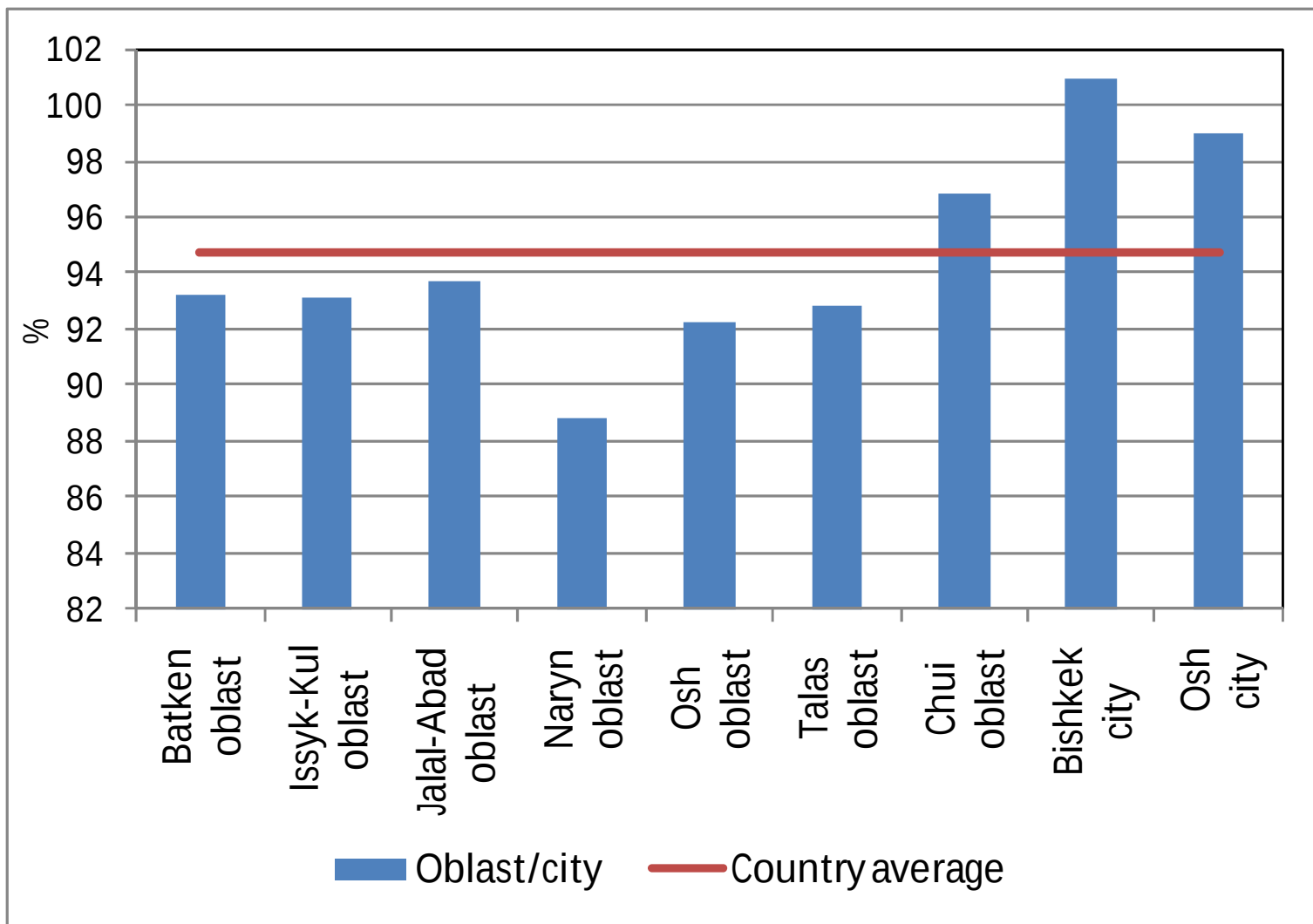
Public expenditure on health – international comparison, 2007



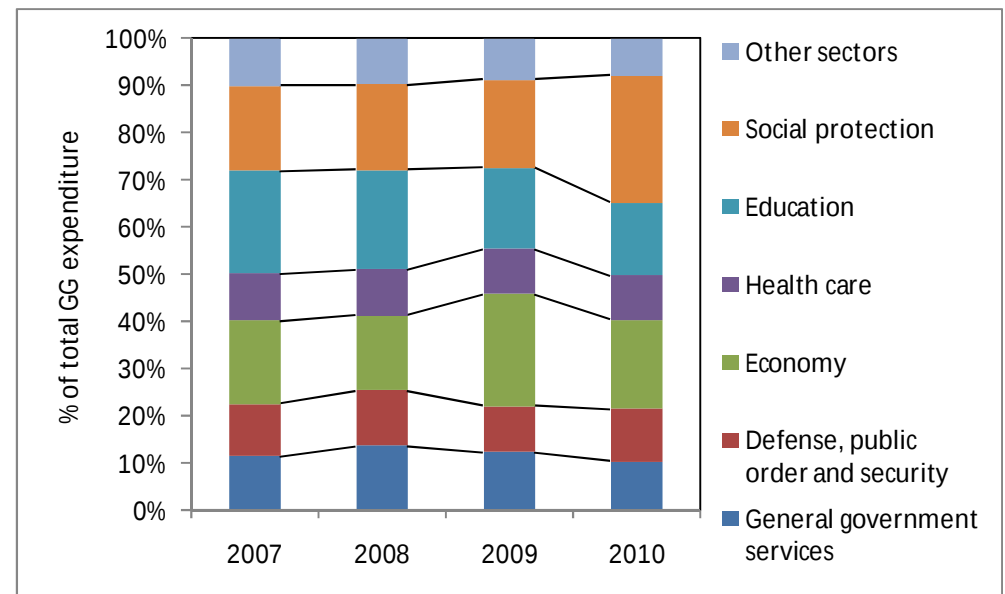
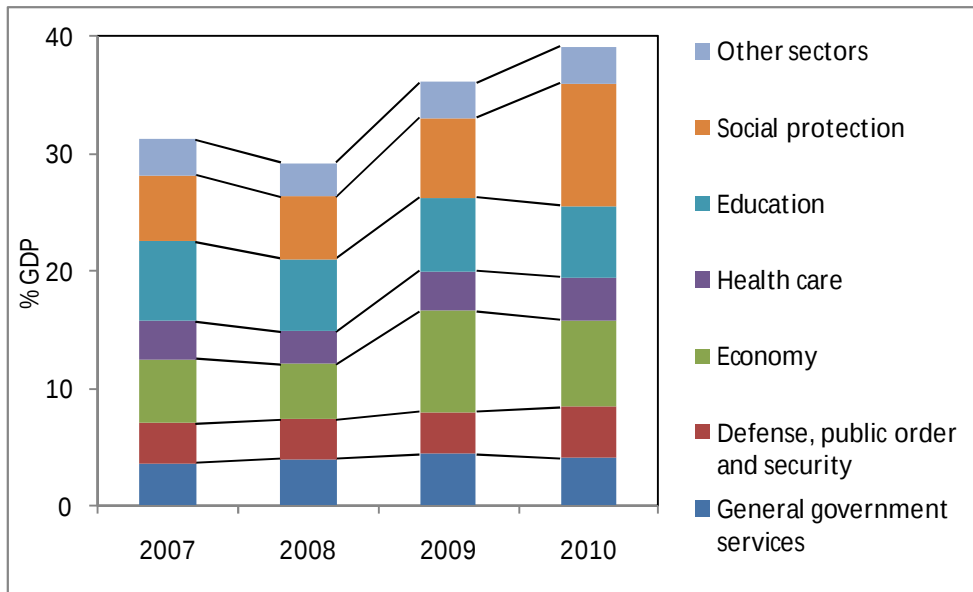
Public expenditure on education in selected countries, 2008



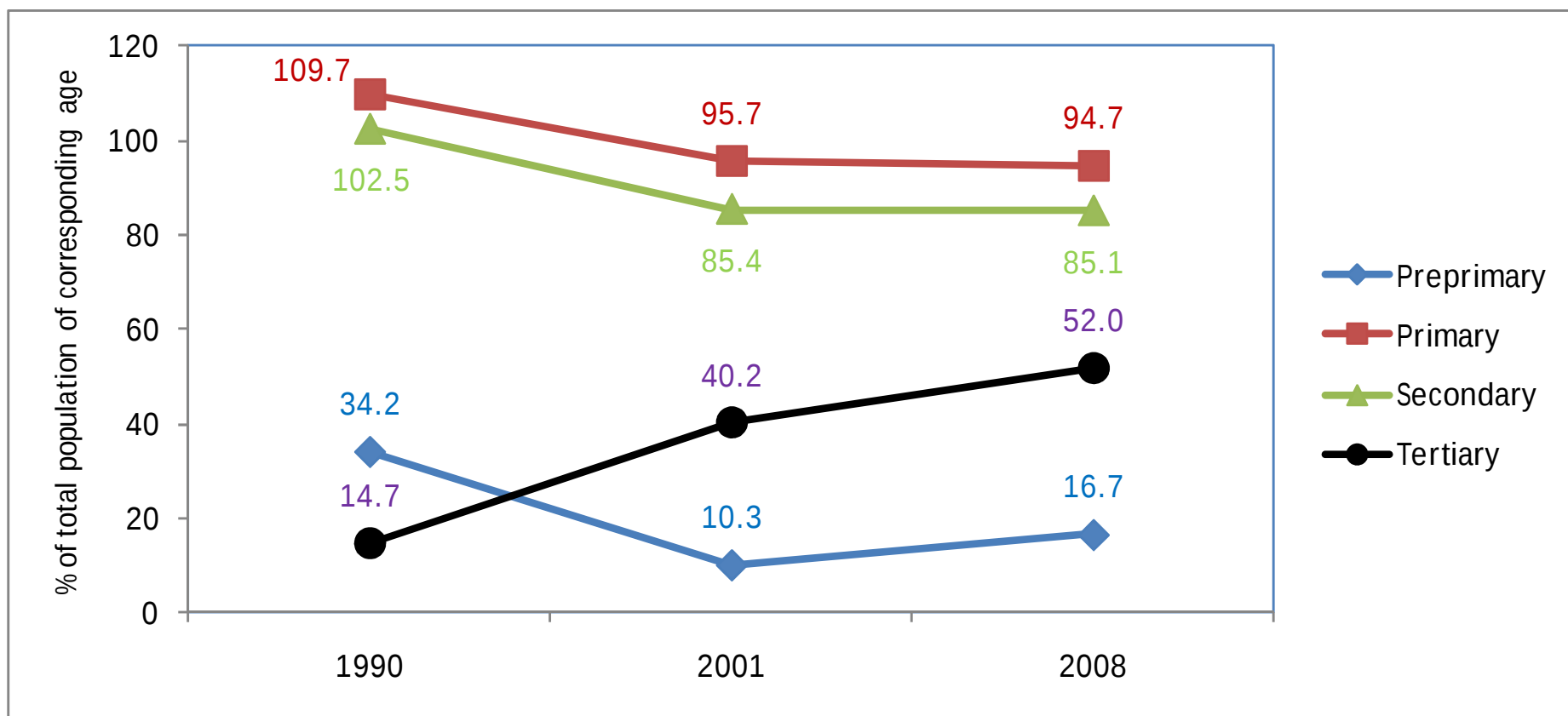
Gross primary completion rate by region, %



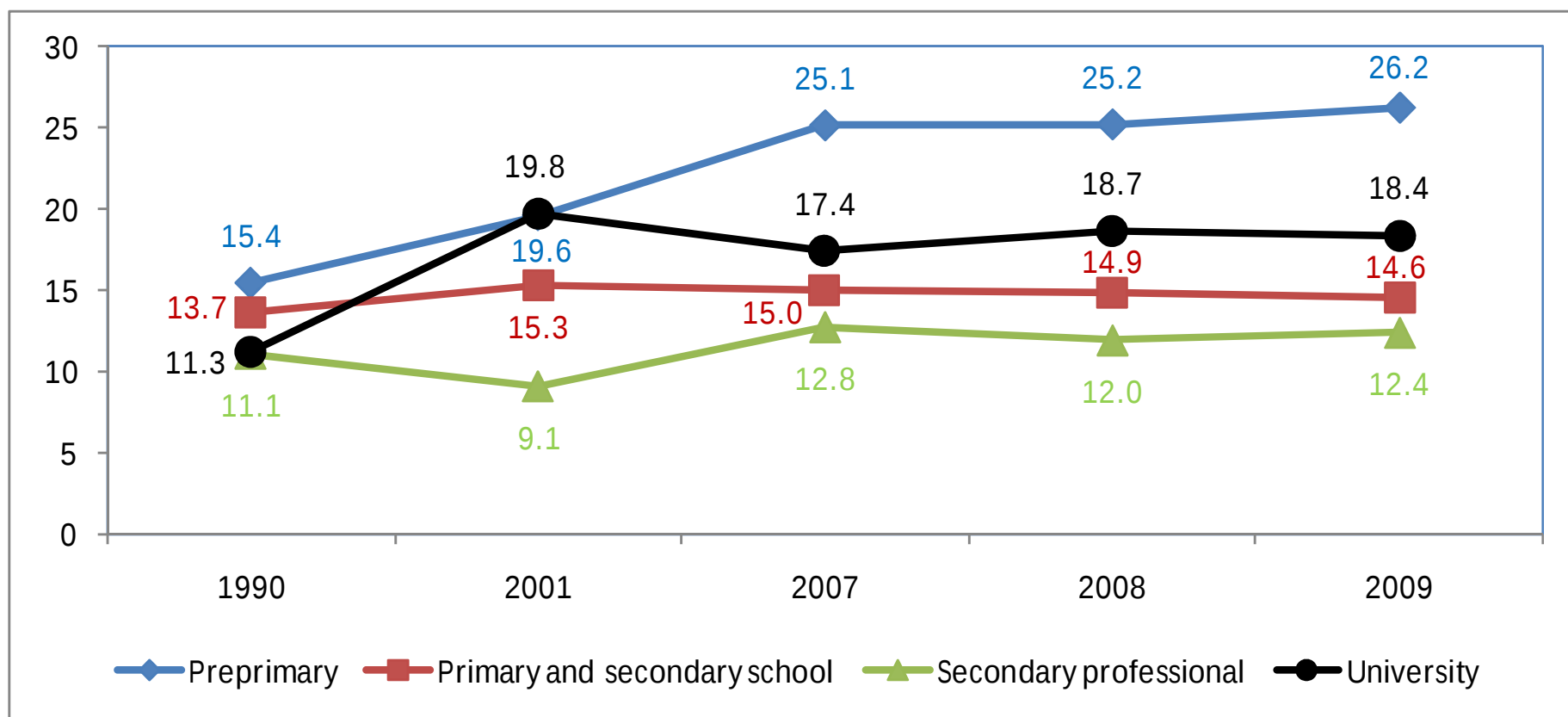
GG Expenditure by Function



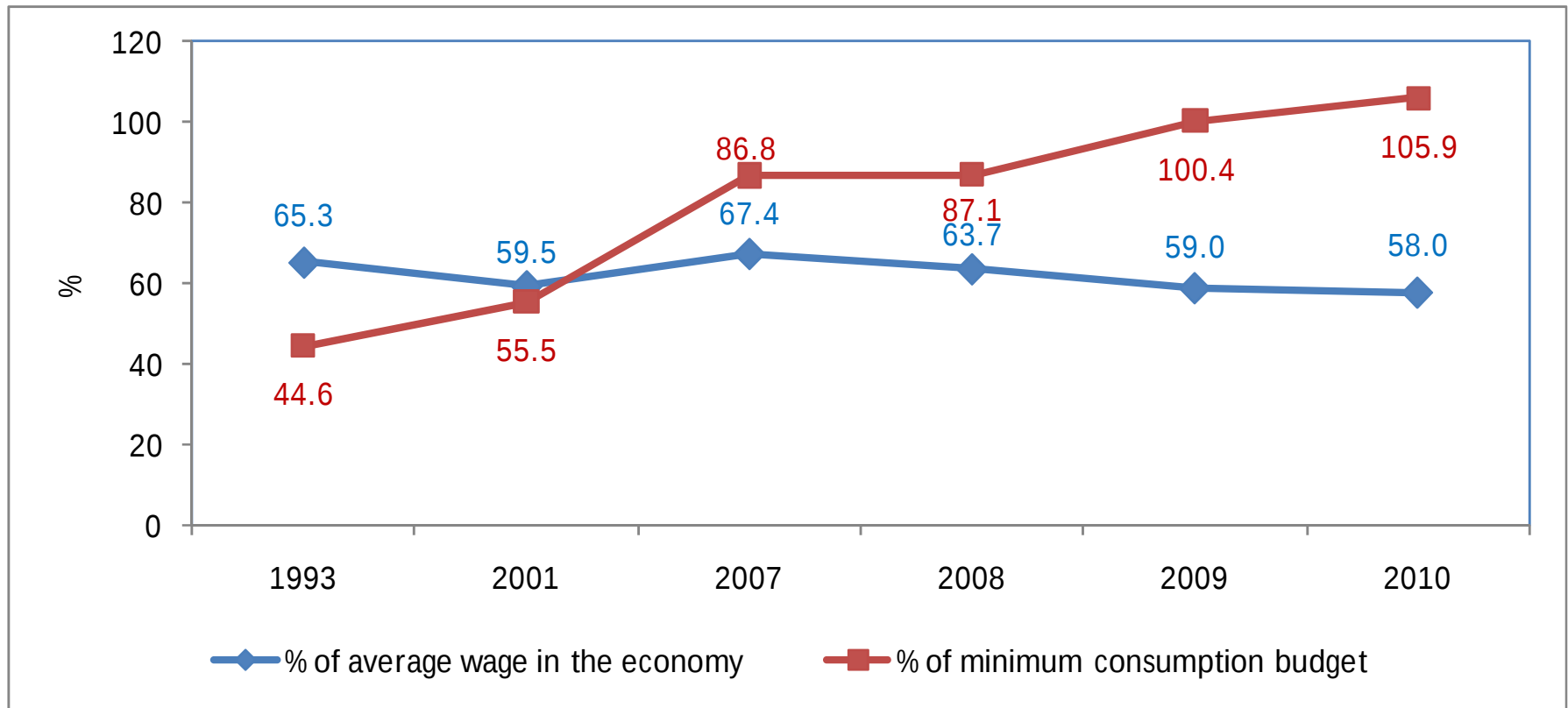
Gross Enrolment Rates by Education Cycle



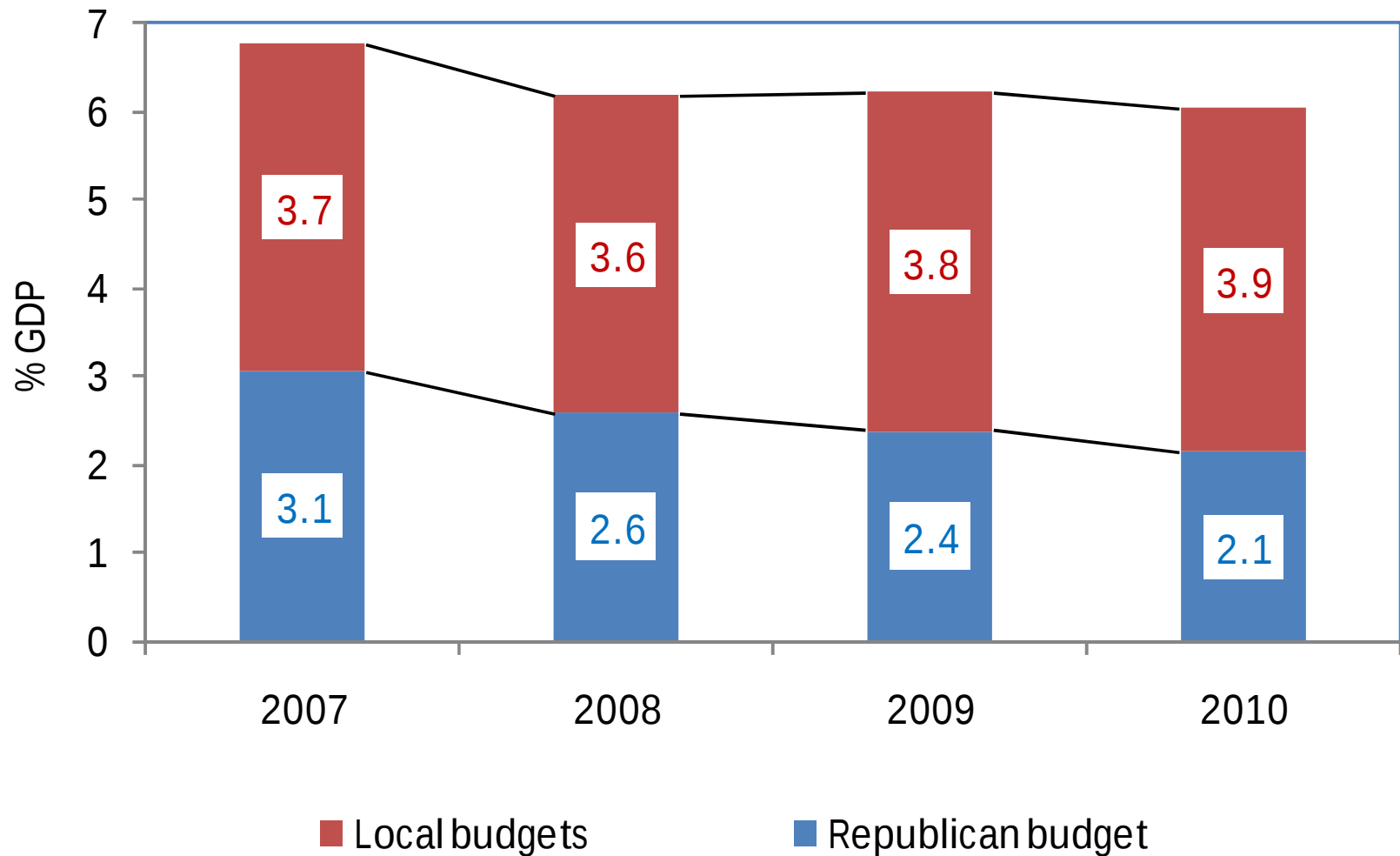
Student-to-Teacher Ratios by Cycle



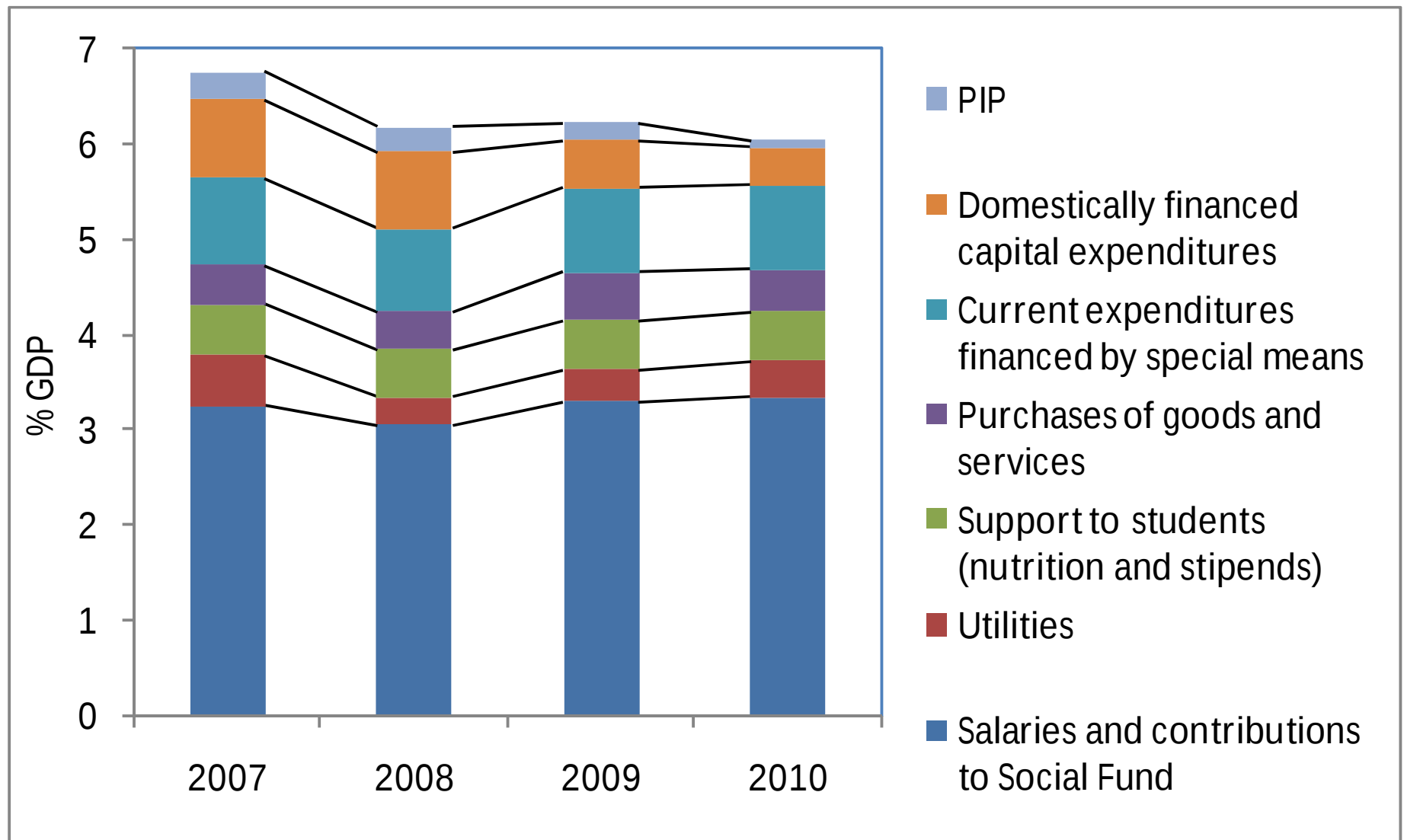
Average Salary in Education



Education Expenditures of Republican and Local Budgets



Education Expenditure by Function



Public Expenditure on Education per Student, All Cycles

