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Georgia and the IMF

Press Release:
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August 6, 2009

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Georgia: Letter of Intent and Technical Memorandum of Understanding

July 30, 2009

GEORGIA: LETTER OF INTENT

July 30, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C.

Dear Mr. Strauss-Kahn:

1. In September 2008, the International Monetary Fund (IMF) approved a Stand-By Arrangement (SBA) for Georgia. This support has been valuable in dealing with the many economic challenges facing Georgia and we are grateful for IMF support.

2. This letter of intent describes the economic policies that we plan to implement during the rest of 2009 and in 2010. As always, we are committed to policies that will maintain macroeconomic stability, protect the economy from shocks associated with the global economic crisis and facilitate the process of macroeconomic adjustment. We, of course, remain committed to implementing the measures contained in previous letters of intent, i.e. those dated September 9, 2008, November 28, 2008 and March 10, 2009.

3. In view of the deterioration in the economic and financial outlook, we hereby request an augmentation of access under the current SBA by SDR 270 million and an extension of the arrangement to June 14, 2011.

Recent Economic Developments

4. Growth in 2008 was a modest 2.1 percent, which reflects the consequences of Russia's invasion of Georgia and the global economic crisis. In the first quarter of this year, the economy contracted by 5.9 percent. While the contraction affected most sectors of the economy, retail trade, manufacturing and construction contributed most to the decline. Lower commodity prices (especially for metals and fertilizers), a decline in the demand for the Georgian exports and a significant decline in private capital inflows were the main transmission channels through which the global crisis affected the Georgian economy.

5. Against the background of a broad decline in economic activity and falling global commodity prices, inflationary pressures have all but disappeared. End-period inflation was 5.5 percent for 2008 and twelve-month inflation was only 2.3 percent as of end-June 2009. Year-on-year growth of reserve money and broad money aggregates has been negative since November 2008.

6. Fiscal performance has been adversely affected by the ongoing economic decline. Tax collection in the first half of 2009 declined by 16.5 percent in nominal terms compared with the same period of last year (excluding one-off effects). Expenditure was contained at GEL 2,921million, or 11percent lower than the same period of last year

(excluding one-off effects). In all, the fiscal deficit reached 4.1 percent of projected annual GDP in the first half of the year, in line with program projections.

7. Consistent with our commitment to increase exchange rate flexibility, we introduced a foreign exchange auction mechanism for the central bank interventions starting from March 10, 2009. Furthermore, from May 25, 2009 the NBG stopped participating in the TICEX trading sessions and since then interventions are conducted only through the foreign exchange auctions. These changes in the operational framework of the foreign exchange market have allowed the NBG to minimize its role as a market maker and have resulted in greater exchange rate flexibility as well as greater reliance on market mechanisms. Interbank market activity has markedly increased and the NBG interventions dropped substantially. The fall in imports has reduced the demand for foreign exchange. In particular, while the NBG's net sales of foreign currency were USD142 million in the first quarter of this year, sales were only USD 0.4 million during the second quarter of 2009. Increased exchange rate flexibility also has curbed speculative pressures and contributed to a more balanced demand for foreign currency.

8. Balance of payments data for the first quarter of 2009 show that exports and imports of goods and services declined by 23 percent and 29 percent, respectively, which reflects both a drop in commodity prices and lower domestic demand. Worker remittances dropped by 26 percent with the majority of decline accounted for by those from Russia. While narrowing, the current account deficit remains high at 17.6 percent of GDP for the first quarter of 2009. FDI inflows, one of the main sources of financing for the current account deficit and a principal driver of economic growth, decline by more than 75 percent compared with the same period in 2008. Other capital inflows—mainly donor assistance--increased by 28 percent thereby partially offsetting the drop in private capital.

9. The financial sector continues to perform well despite a difficult environment. Thanks to the assistance of international financial institutions, commercial banks refinanced most of the foreign liabilities due to mature in the first half of this year thereby avoiding major contractions of their loan portfolios. While the level of non-performing loans has increased—from 3.5 percent of total loans in mid-2008 to 18.8 percent at end-June 2009—this is consistent with the projections of the Financial Supervisory Agency (FSA). This deterioration does not, however, pose a serious risk to the stability of the financial system. Average capital adequacy—at 17.6 percent—is at its highest level in 12 months despite the need for higher loan loss reserves. Consequently, we remain confident that the banking system will continue to be sound and resilient.

10. We developed and published the liquidity management framework (structural benchmark for end-March 2009). The liquidity management framework describes the main objectives of the National Bank of Georgia (NBG), the liquidity forecasting framework and instruments that are used under the existing liquidity management framework.

11. In order to supply additional lari liquidity to the banking sector, we introduced foreign exchange swaps on June 3, 2009. The introduction of the new instrument will help the country to attract additional foreign capital inflows, to allow banks to increase lending in domestic currency and thus mitigate foreign currency exposure risk of the borrowers and to

reduce dollarization of the domestic economy. At the same time, foreign exchange swaps have been kept at a relatively low level to gauge the reaction of commercial banks.

12. In July, the NBG signed an Investment Management Agreement with the World Bank as part of the Sovereign Investment Partnership Program. This program will significantly strengthen our operations with respect to reserves management. Specifically, the program will cover portfolio management, risk management, back-office, accounting, legal and IT areas to enhance asset management practices and infrastructure related to international reserves management functions at the central bank.

13. In order to enhance the safety and efficiency of all interbank payments and to boost financial sector stability, the NBG is working to modernize the Georgian payments system. We aim to conform to international principles and recommendations, including those provided by the Committee on Payment and Settlement Systems of the Central Banks of the Group of Ten Countries and those from the International Organization of Securities Commissions. In July, the NBG signed a contract with a supplier and launched the project. When completed, the project will provide a modern and efficient payments system.

14. We have recently prepared a financial stability plan that describes a set of actions that could be implemented in response to a capital shortage at a commercial bank (structural performance criterion for end-June 2009). Importantly, the plan outlines roles and responsibilities of the NBG, the FSA and the Government in such a situation and outlines possible instruments of public intervention.

15. We continue to strengthen our fiscal legal framework in order to increase the efficiency in public finance management. In this regard, we have submitted a new budget code to the cabinet (structural benchmark for end-July), which will enhance monitoring of budget execution and improve strategic planning.

Macroeconomic Policies for 2009 and 2010

16. Our major macroeconomic challenge continues to be the restoration of economic growth. This will, of course, require the resumption of private capital inflows and domestic lending in support of investment projects. At the same time, we recognize that many of the extraordinary actions undertaken in response to the economic crisis are not sustainable in the medium term. Hence, our efforts to enhance macroeconomic stability will concentrate on intensifying economic reforms, refining policy instruments and achieving a sustainable fiscal and external balance as quickly as possible.

17. The ongoing global economic crisis continues to cast a shadow over our growth prospects. This situation has been exacerbated by domestic political tensions with the result that there was likely a further contraction of economic activity in the second quarter of this year. We continue to expect a modest recovery in the second half of the year, but it is difficult to assess the magnitude of any such recovery. So, while we envision a scenario whereby the contraction for the year as a whole could be only 1.5 percent, we are prepared for a larger contraction. Our projections and planning—and hence program targets—assume a contraction in real GDP of 4 percent this year.

18. Beginning in 2010, we anticipate that economic recovery will strengthen and that our economy will again grow. An important source of this growth is expected to be a recovery in exports. Further, we anticipate a strong recovery in FDI beginning in 2010. As result, we project real GDP will increase by 2 percent next year, inflation is projected at around 3 percent and nominal GDP at GEL 19,042 million in 2010.

19. The current account deficit for this year is expected to moderate to around 16 percent of GDP from a record high level of nearly 23 percent in 2008. Exports and imports of goods and services are projected to decline by 20 percent and 27 percent, respectively. Worker remittances are expected to drop by around 18 percent for the year. We project FDI inflows in the amount of around US$ 900 million for 2009, which is 40 percent lower than in 2008 and deprives the economy of an important source of growth. Overall, we expect an accumulation of gross reserves in the amount of over US$230 million, assuming that all available purchases under the SBA are made.

20. Our fiscal stance for the remainder of 2009 will continue to sustain demand through donor financed spending. While overall spending will be roughly in line with previous plans, the shortfall in revenue linked to the deterioration in economic activity will widen the fiscal deficit to 9.4 percent of GDP for the year. The recent amendment to the 2009 budget law envisions additional expenditures of about GEL 300 million relative to the initial budget, in the areas of infrastructure investments (e.g., water and road projects), which are intended to enhance our competitiveness and deliver critical services to the population. These additional outlays will be offset in part through underexecution of other spending by about GEL130 million, which is broadly-based and about evenly divided between capital spending and current spending (notably subsidies and goods and services).

21. In 2010-11, we expect a recovery in private capital inflows to begin. Moreover, despite considerable fiscal adjustment, the current account deficit is expected to improve only marginally owing to adverse terms of trade developments. Also, in view of the continued high uncertainty in the external environment, there is a need to increase the reserve buffer to more comfortable levels. Accordingly, we anticipate a financing gap of around $400 million in 2010-11, for which we are asking for additional Fund support.

22. We realize that the fiscal stimulus measures currently deployed by the Government are essential for minimizing the impact of the global financial downturn on Georgia, we also believe that this stimulus must not jeopardize Georgia's longer-term fiscal sustainability. We consider that restoring a sound fiscal position is also critical in view of external debt repayment obligations falling due in 2012-14. Starting in 2010, we are therefore committed to an ambitious program of deficit reduction. Largely through expenditure reductions, we are targeting to reduce the deficit to 7.3 percent of GDP in 2010 (SBA definition). Expenditure reductions will focus on domestically financed capital spending, where government intervention is being replaced by donor-financed projects. These intentions will be fully reflected in the budget which is to be submitted to parliament by October 1. Social expenditures will not be affected by the proposed cuts. Based on further expenditure containment, as well as an expected recovery of tax revenues, we are committed to steady reductions in the deficit to 2-3 percent of GDP by 2013. These targets will be presented to parliament by October 1, as part of our 2010 budget submission. We propose to make this a

structural benchmark under the program and we will maintain close dialogue with the Fund in the context of elaboration of the next year's budget and of the medium-term expenditure framework.

23. While we plan to introduce domestic debt instruments (treasury bills) in the second half of this year, we are reluctant to meet all of the incremental financing needs via this mechanism. The market for treasury bills in Georgia is untested of late and a large issuance may not be well received by the market. Further, while we wish to develop the market for treasury bills—not least so as to provide the NBG with another monetary policy tool and allow the banks to diversify their portfolio to include an important class of risk-free assets—the cost of financing from this source is high. Consequently, we plan to limit issuance of T-bills in 2009 to around GEL 160 million, and we will need to rely on external balance of payments support to finance a portion of our budgetary needs. In the context of sustaining the agreed cap on fiscal deficit, we expect to be able to mobilize additional external budget support in 2010 and the Government use of IMF resources for deficit financing will be reduced as such commitments are finalized. We intend to continue issuance of T-bills for 2010 and the NBG will support development of secondary market for T-bills by introducing electronic trading platform shortly after the launch of primary auctions.

24. We continue to implement our public finance reform program, which we view as an important prerequisite to ensuring transparency, discipline, efficiency and accountability in the public finance area. Our public finance reform action plan for 2009 implies actions in a large number of areas, including developing liquidity management guidelines, preparing the functional and technical specification for the PFMS, developing new format of the medium-term framework (Basic Data and Directions) document, improving the format of local budgets, ensuring functionality of the risk assessment tax audit system, further streamlining tax and customs codes and developing necessary sub-legislation, establishing electronic information exchange system between banks and the Revenues Service, improving capital budget forms, establishing customs audit and progressing towards risk-based customs control, fostering full functionality of the electronic treasury system and inclusion of all taxes into the e-filing system. We believe that implementation of these reforms enhances efficiency and effectiveness in the use of public financial resources and contributes to the overall resilience of the economy both now, in the time of stress, and over the medium term.

25. We realize that further improvement of effectiveness and efficiency of public expenditure management and of proper monitoring thereof are positively correlated with the level of development of public internal financial audit both at institutional and systemic levels. The Government has thus approved an internal audit strategy and an internal audit harmonization unit has been established in the Ministry of Finance. The Law on internal audit will be submitted to the Parliament by end- September, 2009. We propose this to be a structural benchmark.

26. We envision that monetary policy will remain strongly expansionary in 2009 The early experience with foreign currency swaps suggests that they have eased credit conditions without adversely affecting the foreign exchange market, but we will limit the use of this instrument to limit liquidity injections. Most of the liquidity injections this year will come from external financing of the budget. Using a combination of swaps, sales of certificates of

deposit and treasury bills, we are confident that the NBG has the necessary tools to adjust monetary conditions without rekindling inflationary pressures. We continue to project end-period inflation to be 3.5 percent. These projections are, of course, sensitive to assumptions regarding the money multiplier and, in turn, commercial bank lending to the private sector. We are confident, however, that should price pressure begin to develop late this year or early next year, that the NBG has the necessary tools to respond appropriately.

27. We remain fully committed to a flexible exchange rate policy. We anticipate that recent structural changes—most notably the introduction of foreign exchange auctions—will greatly enhance the role of the interbank foreign exchange market thereby allowing the NBG to be less interventionist in the future. This should allow market forces the predominant role in the determination of the exchange rate. To that end, additional measures are planned, including a reduction in the number of regular weekly auctions from two to one. Additionally, we will increase the allowed range of bids at the auctions from 0.5 percent plus or minus the official exchange rate to one percent.

28. Enhancing the competitiveness of the Georgian economy is, of course, of primary importance to us and is key to reducing Georgia's external current account deficit to more sustainable levels over the medium term. Georgia's extremely favorable business environment and geographic advantages place it in a good position to benefit from a recovery of FDI flows to emerging markets. We expect that additional structural reforms will be at the root of future competitiveness gains. These include further privatization and reductions of the state's role in the economy.

29. Overall, our experience with the separation of the NBG and the FSA has been positive, especially as regards policy formulation and coordination. Nonetheless, we believe there is scope for efficiency gains by combining some of the administrative and technical functions of the two agencies and we have submitted to parliament a draft law for their merger.

30. As part of our effort to prepare for possible stresses in the financial sector, we continue to refine our financial stability plan. We will provide a status report on progress with respect to developing bank-by-bank measures based on stress test results and assurances of support received from foreign shareholders (structural benchmark end-September 2009).

31. While we are confident that the Georgian economy will continue to perform well in an adverse economic environment, we recognize that potential risks lurk. The economic team meets regularly to monitor developments and we take in our history of flexibility in response to changing circumstances. Against a background of strong macroeconomic management, we continue to be prepared to introduce appropriate corrective measures, including the necessary fiscal and monetary adjustments, should these risks materialize. In particular, we stand ready to consider a broader range of fiscal measures to ensure that our deficit reduction targets remain robust to lower GDP growth outcomes.

Program Monitoring

32. All end-March and end-June performance criteria under the Stand-By Arrangement were met. We, therefore, request the completion of the Third Review and a rephasing of purchases through the remainder of 2009, with amounts previously scheduled to be available following third and fourth reviews becoming available after the completion of this review in August. We intend to purchase the SDR94.6 million that will be available to us upon completion of third review. We will maintain the usual close policy dialogue with the Fund and are ready to take additional measures as appropriate to ensure that we meet program objectives. In particular, if the pressures on Georgia stemming from the global economic crisis are greater than anticipated, the government would adjust its fiscal and exchange rate policies to maintain external stability.

33. We request a modification of end-September PCs according to the attached Table 1, which also establishes end-December PCs and indicative targets for 2010. The fourth review will be based on end-September performance criteria and is scheduled for completion by end-December 2009, and the fifth review will be based on end-December performance criteria and is scheduled for completion by end-March 2010. The revised Technical Memorandum of Understanding clarifies the treatment of the purchases under the SBA that are directed for budget support and of SDR allocations in the calculations of net international reserves of the NBG as defined by the program. Structural benchmarks under the program are described in Table 2.

34. We welcome the Executive Board's decision to back the US$250 billion general SDR allocation. We intend to use our share of the allocation to bolster international reserves.

35. We authorize the IMF to publish this Letter of Intent and its attachments as well as the accompanying staff report.

Sincerely yours,

/s/
Nika Gilauri
Prime Minister of Georgia

/s/
Kakha Baindurashvili
Minister of Finance

/s/
Giorgi Kadagidze
President of the National Bank of Georgia

Table 1. Georgia: Quantitative Performance Criteria and Indicative Targets, 2009-10

	Cumulative Change from End-December 2008									
	Mar-09			Jun-09			Sep-09		Dec-09	Dec-10
	Second review	Adjusted PC	Actual	Second review	Adjusted PC	Actual	Second review	Proposed PC	Proposed PC	Indicative targets
	(In millions of lari)									
Ceiling on cash deficit of the consolidated government	480		208	924		660	973	1,255	1,638	1,393
	(In millions of U.S. dollars)									
Ceiling on contracting or guaranteeing of new nonconcessional external debt by the public sector	850		0	850		0	850	850	850	600
	Stocks at the end of the period									
	(In millions of lari)									
Ceiling on net domestic assets (NDA) of the NBG 1/	310	237	-66	446	328	189	240	344	413	829
	(In millions of U.S. dollars)									
Floor on net international reserves (NIR) of the NBG 1/	633	677	777	585	656	775	769	813	740	609
Ceiling on accumulation of external arrears 2/	0		0	0		0	0	0	0	0

Sources: Georgian authorities; and Fund staff estimates.

1/ Actual figures and quantitative targets are based on program exchange rates.
2/ The continuous performance criterion for external arrears is defined in paragraph 15 of the TMU.

Table 2. Georgia: Structural Benchmarks

Action	Proposed Time Frame	Type of Conditionality	Status
FSA and NBG to sign and implement a memorandum of understanding to strengthen cooperation.	End-Oct-08	Structural Benchmark	Observed
NBG to introduce revised LOLR facility.	End-Dec-08	Structural Performance Criterion	Observed
Submission to parliament of a state budget for 2009 with an overall fiscal deficit of no more than 3¾ percent of projected GDP (subject to an adjustor of at most 3 percent of GDP as set out in the TMU).	End-Dec-08	Structural Benchmark	Observed
NBG to develop and publish a liquidity management framework, including the introduction of a refinancing mechanism as the main instrument to provide liquidity.	End-Mar-09	Structural Benchmark	Not observed. Implemented with delay
The NGB, the FSA, and the government to develop a financial stability plan that will contain policy actions to respond to potential situations of stress by defining the roles and responsibilities of the different players—the NBG, the FSA and the government—under each circumstance.	End-Jun-09	Structural Benchmark	Observed
Appointment of the remaining members to the FSA board.	End-Jun-09	Structural Benchmark	Not observed
Submission of a new budget code to the cabinet to make the budget preparation process more inclusive, enhance the budget execution monitoring process, and move to performance driven policy by improving strategic planning.	End-Jul-09	Structural Benchmark	
Status report on the implementation of the action plan described in the Financial Stability Plan, including bank-by-bank contingency measures based on stress test results and assurances of support from foreign shareholders.	End-Sep-09	Structural Benchmark	
Submission to parliament of the Law on Internal Audit.	End-Sep-09	Structural Benchmark	
Submission to parliament of a state budget for 2010 that: (i) is consistent with the program targets and assumptions, and an overall deficit of no more than 7.3 percent of GDP (program definition); (ii) contains a medium-term fiscal framework consistent with the program's medium-term deficit reduction targets; and (iii) describes the medium-term policies underlying the fiscal deficit objectives through 2013.	October 1, 2009	Structural Benchmark	

GEORGIA: REVISED TECHNICAL MEMORANDUM OF UNDERSTANDING

July 30, 2009

1. This memorandum sets out the understandings between the Georgian authorities and the IMF staff regarding the definitions of quantitative performance criteria and indicative targets, as well as respective reporting requirements for the Stand-By Arrangement (SBA). It replaces the technical memorandum of understanding dated March 10, 2009.

2. These performance criteria and indicative targets are reported in Tables 1 and 2 attached to the Letter of Intent dated March 10, 2009 and Tables 1 and 2 attached to the Letter of Intent dated July 30, 2009. The exchange rate for the purposes of the program of the Georgian lari to the U.S. dollar is set at GEL 1.67 = $1. The corresponding cross exchange rates are provided in Table 1.

Consolidated Government and the Public Sector

3. **Definition:** The consolidated government is defined as the central government, local governments, extrabudgetary funds, public services providing general government system LEPLs, and the Sovereign Wealth Funds (Future Generations and Stable Development Funds). In case the government establishes extrabudgetary funds, they will be consolidated within the consolidated government. The public sector consists of the consolidated government and the National Bank of Georgia (NBG).

4. **Supporting material:** The Treasury Department of the Ministry of Finance (MOF) will provide to the IMF detailed information on monthly revenues, expenditures, and arrears of the consolidated government. In addition, data will be provided on the cash balances in the accounts of the Ministry of Finance.

Quantitative Performance Criteria, Indicative Targets, and Continuous Performance Criteria: Definitions and Reporting Standards

I. Ceiling on the Cash Deficit of the Consolidated Government

5. **Definition:** The cash deficit of the consolidated government will be measured from the financing side at current exchange rates, and will be defined as equal to total financing. Total financing will be defined as the sum of (i) net domestic financing from banks and nonbanks, (ii) net external financing, and (iii) privatization receipts.

- Net domestic financing consists of bank and nonbank financing to the consolidated government which will be defined as follows:

  (i) Loans provided by commercial banks to the consolidated government minus accounts held by the consolidated government at commercial banks. These accounts and loans will be monitored based on the NBG's monetary survey. Any other securities issued by the consolidated government (for example, promissory notes) are also included in domestic financing.

(ii) Loans provided by the NBG to the consolidated government minus accounts of the consolidated government held at the NBG in lari and foreign currency. Accounts that are outside of the MOF's control are excluded from domestic financing. These accounts include VAT refund account; earmarked grants account; account for state agencies deposits; account for local government revenues for the day to be transferred to their account; national disaster fund account; and investment grant and credit account. As of December 31, 2008, cash balances in these accounts were lari 768 million. These accounts will be monitored based on the changes in cash balances as recorded by the Treasury Department.

(iii) Treasury bills that have been securitized and sold by the NBG, including the bills that have been purchased by nonbanks.

- Net external financing is defined as the total of loans disbursed to the consolidated government for balance-of-payments support and project financing (capital expenditure and net lending), net change in external arrears, change in the accounts of the consolidated government abroad, including the accounts of the Sovereign Wealth Fund, minus amortization. Amortization includes all external debt-related payments of principal by the consolidated government. Amortization to external creditors via third parties is accounted for at the time and in the amount of payment by the budget to the third party, rather than at the time of recognition of amortization by the external creditor.

- Privatization receipts consist of all transfers of monies received by the central and local governments in connection with the sale of central or local government assets, including privatization proceeds which were transferred to the Sovereign Wealth Funds. This includes receipts from the sales of shares, the sale of assets as well as leases and the sale of licenses with duration of 10 years and longer.

6. **Supporting material:**

- Data on domestic bank and nonbank financing will be provided to the IMF by the NBG and the Treasury Department of the MOF within four weeks after the end of the month.

- Data on external project financing as well as other external borrowing will be provided to the IMF monthly by the Debt Unit at the MOF (specifying projects by creditor) within two weeks of the end of each month.

- Data will be provided at the actual exchange rates.

- Data on the accounts of the Sovereign Wealth Funds will be provided by the NBG.
- Data on privatization receipts will be provided by the Treasury Department of the MOF to the IMF on a monthly basis within two weeks of the end of each month. The data will be consistent with the revenue account(s) in the NBG.
- Data on treasury bills that have been securitized and sold by the NBG, including the bills that have been purchased by nonbanks, will be reported by the NBG on a monthly basis within two weeks of the end of each month.

II. Floor on the Net International Reserves of the NBG

7. **Definition:** For the program purposes, net international reserves (NIR) of the NBG in U.S. dollars are defined as foreign assets of the NBG minus the sum of foreign liabilities of the NBG. Foreign assets of the NBG include gold, gross foreign exchange reserves, Georgia's SDR holdings, and the reserve position in the IMF. Gross foreign exchange reserves of the NBG are defined as liquid, convertible currency claims of the NBG on nonresidents, including cash holdings of foreign exchange, that are readily available. Pledged or otherwise encumbered assets, including (but not limited to) assets used as collateral (or guarantee for third party external liabilities) are excluded from foreign assets. Foreign liabilities of the NBG shall be defined as the sum of Georgia's outstanding liabilities to the IMF, Georgia's SDR allocation, and any other liabilities of the NBG, excluding the foreign exchange balances in the government's account with the NBG. Thus defined, the definition of NIR excludes foreign assets stemming from foreign currency deposits of financial institutions at the NBG and foreign assets arising from the currency swaps with financial institutions. For program monitoring purposes, the stock of foreign assets and foreign liabilities of the NBG shall be valued at program exchange rates as described on paragraph 2 above. The stock of NIR amounted to $879.8 million as of December 31, 2008 (at the program exchange rate).

8. Adjustors:

The floor on the NIR of the NBG will be adjusted:

- (a) upward/downward by 50 percent for any excess/shortfall in the balance-of-payments support loans and balance-of-payments support grants relative to the projected amounts presented in Table 2.
- (b) upward/downward by 50 percent for any excess/shortfall in the disbursements of the project loans and project grants to the Treasury Single account at the NBG relative to the projected amounts presented in Table 2.
- (c) upward 100 percent for any shortfall in the amount of conversion for government imports relative to the projected amounts presented in Table 2.

9. **Supporting material:** Data on net international reserves (both at actual and program exchange rates); net foreign financing (balance of payments support loans, cash grants to the consolidated government, amortization (excluding repayments to the IMF), interest payments on external debt by the MOF and the NBG); conversions for government imports and transfers of receipts from the Sovereign Wealth Funds will be provided to the IMF in a table on the NBG's foreign exchange flows (which include details of inflows, outflows, and net international reserves) on a weekly basis within three working days following the end of the week.

III. Ceiling on Net Domestic Assets of the NBG

10. **Definition:** Net domestic assets of the NBG are defined as the difference between reserve money and NIR as defined above, and as adjusted according to paragraph 8.

11. **Supporting material**: The NBG will provide to the IMF its balance sheet, which includes data on its net domestic assets, on a monthly basis within two weeks of the end of each month. Data will be provided using both actual and program exchange rates.

IV. Ceiling on Contracting or Guaranteeing of New Nonconcessional External Debt by the Public Sector

12. **Definition:** Nonconcessional external loans are defined as loans from lenders other than the IMF with a grant element of less than 35 percent of the value of the loan. The grant element is to be calculated by using currency-specific discount rates reported by the OECD (CIRRs).[1] For maturities of less than 15 years, the grant element will be calculated based on six-month averages of commercial interest rates. For maturities longer than 15 years, the grant element will be calculated based on 10-year averages. This performance criterion applies not only to debt as defined in point No. 9 of the IMF's Guidelines on Performance Criteria with Respect to External Debt (Decision No. 12274-(00/85) August 24, 2000) but also to commitments contracted or guaranteed for which value has not been received.[2]

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[1] An electronic spreadsheet file that shows the relevant discount rates reported by the OECD (CIRRs) will be provided on a periodic basis by IMF staff. A web-based grant element calculator is available at http://www.imf.org/concessionality.

[2] Point No. 9 of the IMF's guidelines reads as follows: "(a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase

(continued)

Previously contracted nonconcessional external debt that has been rescheduled will be excluded from the definition of "new debt" for the purposes of this performance criterion.

13. **Supporting material:** Details of all new commitments and government guarantees for external borrowing, with detailed explanations, will be provided by the MOF to the IMF on a monthly basis within two weeks of the end of each month. Data will be provided using actual exchange rates.

V. Continuous Performance Criterion on Nonaccumulation of External Arrears

14. **Definition:** During the period of the arrangement, the consolidated government and the NBG will not accumulate any new external payment arrears on debt service obligations to official creditors. Official external payment arrears are defined as unpaid debt service by the consolidated government and the NBG beyond 30 days after the due date. The performance criterion on nonaccumulation of external debt is continuous.

15. **Supporting material:** Details of official arrears accumulated on interest and principal payments to creditors will be reported to the IMF within one week from the date of the missed payment. Data will be provided using actual exchange rates.

Table 1. Program Exchange Rates

	Currency Name	Currency/US$
SDR	Special Drawing Rights	0.65
GEL	Georgian lari	1.67
EUR	Euro	0.72

agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the leaser retains the title to the property. For the purpose of the Guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. (b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt."

Table 2. Projected Balance-of-Payments Support Financing 1/ (In millions U.S. dollars)			
	Balance-of-payments support loans and balance-of-payments support grants	Project loans and project grants	Conversion for government imports
September 30, 2009	188.6	127.2	230.5
December 31, 2009	318.1	184.1	353.2
1/ Cumulative from the beginning of the calendar year.			