Georgia and the IMF

Press Release:
IMF Executive Board Completes Fifth Review under the Stand-by Arrangement for Georgia and Modifies Performance Criteria
March 19, 2010

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Georgia: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

February 25, 2010

The following item is a Letter of Intent of the government of Georgia, which describes the policies that Georgia intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Georgia, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

GEORGIA: LETTER OF INTENT

February 25, 2010

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, which was further augmented in August 2009. On December 11, 2009 the IMF's Executive Board completed the fourth review of the SBA allowing for an immediate purchase of an amount equivalent to SDR 47.3 million. We are grateful for the assistance which the IMF provides to Georgia.

2. This letter of intent describes the economic policies that we plan to implement during 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, March 10, 2009, July 30, 2009 and November 25, 2009.

Recent Economic Developments

3. Growth in the three quarters of 2009 amounted to minus 5.5 percent, showing signs of economic improvement in the third quarter. As most sectors contracted, positive year-on-year growth in the third quarter was achieved in such important sectors as construction, transport, and financial intermediation.

4. As a result of a broad decline in economic activity and falling global commodity prices, inflationary pressures have declined. Inflation as of end-June 2009 was 2.3 percent but picked up to 3.0 percent by the end of 2009. Taking into account the recent increase of global commodity prices and signs of improvement in economic activity, we expect inflation to reach 5 percent in 2010.

5. Fiscal performance has been affected by the recent economic decline. Tax collection in 2009 declined by 7.7 percent in nominal terms. Expenditures in 2009 were contained at GEL 6851.0 million (general government, including capital expenditures), or 1.4 percent lower than in 2008. In all, the preliminary estimate of fiscal deficit reached 9.2 percent of the projected annual GDP, in line with program projections.

6. On December 1, 2009, the new Organic Law of Georgia “On the National Bank of Georgia” came into force. According to this new law, the Financial Supervision Agency (FSA) has been merged with the NBG, giving the central bank authority to supervise the entire financial sector. The merger will improve coordination between macro and supervisory teams of the NBG and will increase the effectiveness of macro-prudential oversight. In the new law, the NBG is given responsibility for maintaining price stability over the medium term. This change allows for introduction of a soft inflation targeting regime.

7. Consistent with our commitment to increase exchange rate flexibility, starting from May 25, 2009, the NBG foreign exchange interventions are conducted only through the foreign exchange auctions. Along with the weak demand for foreign currency, foreign exchange auctions allowed for less NBG intervention. Starting from October, the NBG expanded the deviation band for auction bids from 0.5 percent to 1 percent of the official exchange rate. In the last two months of 2009 the NBG’s net FX sales totaled USD 13 million with no sales taking places in December. In January, the NBG resumed interventions in the FX market to counter seasonal pressures and limit excess volatility.

8. Balance of payments data for the third quarter of 2009 show that exports and imports of goods and services declined year-on-year by 15.3 percent and 31.5 percent, respectively, which reflects both a drop in commodity prices and lower demand for imports. Worker remittances increased 36.6 percent, and FDI inflows grew by 69.4 percent year-on-year. As a result, the current account deficit dropped to 8.4 percent of GDP in the third quarter of 2009, showing an improvement of 11.8 percentage points from the previous year (20.2 percent in Q3 2008).

9. The banking sector continued its positive performance in the last quarter of 2009. Commercial banks’ net profit in the fourth quarter equaled GEL 17 million. Starting from May, the volume of deposits has been growing steadily, posting a 33 percent growth in lari terms by end-year. The average capital adequacy at the end-year equaled 19.1 percent.

10. In order to enhance the safety and efficiency of the international reserves management process, the NBG is implementing a new portfolio management system. The system will cover front-middle-back office and accounting functionality based on Straight Through Processing (STP) principles. The system will be IFRS compliant and will allow NBG to introduce new, more sophisticated financial instruments and investment techniques in its reserves management process. The new system will help NBG bring its reserves management procedures in line with international best practices. NBG has signed the contract on system supply and implementation with WallstreetSystems, leading portfolio management system supplier who has over 30 central banks clients around the world. The system is expected to become fully operational by the end of 2010.

11. We continue to refine our Contingency Plan (CP) which provides a framework for policy makers to coordinate their policies and actions to mitigate systemic risks to the

financial sector and, in case of realization of such risks, to reduce the social cost of any ensuing financial distress. Recently, we have updated the CP by inclusion of the principles that should guide exit strategy. Although the banking system is adequately capitalized, the NBG continues to conduct regular stress tests on system wide and bank by bank level. In line with changes in legislation, which enable the supervisor to conduct risk-based supervision, a reorganization process is under way to enable the NBG to use more effectively its resources for risk based supervision. The move toward a risk based framework is done gradually, to minimize regulatory risk for the industry and enable smooth transition towards the new regulatory framework.

12. We continue to improve the efficiency and effectiveness of public finances. The Ministry of Finance is broadly on track in implementing the Public Finance Management Reform Policy Vision 2009-2013. The Reform Action Plan for 2009 has been successfully implemented. The draft budget code was one of our key priorities in 2009. The new budget code was adopted in December 2009, providing a sound framework for fiscal planning and efficiency gains in the area. The new budget code seeks to consolidate all legislation related to the budget process into a single law, to better integrate the medium-term economic and fiscal framework (BDD) and the public investment program into the annual budget cycle, and to prepare the ground for results-oriented budgets.

13. Furthermore, in 2009 we progressed significantly in ensuring functionality of the risk assessment tax audit system, streamlining tax and customs codes and developing necessary sub-legislation, establishing electronic information exchange system between banks and the Revenues Service, improving capital budget document forms, establishing a 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. The implementation of these reforms has enhanced efficiency and effectiveness in the use of public financial resources and shall contribute to the overall resilience of the economy both now, in a time of stress, and over the medium term.

Macroeconomic Policies for 2010

14. 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. 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, and achieving a sustainable fiscal and external balance as quickly as possible.

15. Based on available economic data, the annual rates of economic contraction started improving from the third quarter of 2009, due to recovery of certain economic activity as well as the base year effect. The 7.8 percent contraction of real GDP in the first half of 2009

decreased in the third quarter to 1.2 percent, pointing to approximately 4.0 percent real GDP contraction in 2009. In 2010, we anticipate economic recovery with real GDP growth projected at 2 percent and we target inflation rate of 5 percent per annum.

16. The current account deficit for 2009 is expected to moderate to around 12 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 16 percent and 30 percent, respectively. Worker remittances are expected to increase by around 2 percent for the year. We project FDI inflows in the amount of around US$767 million for 2009, which is 51 percent lower than in 2008 and deprives the economy of an important source of growth. Overall, gross reserves increased in 2009 by about US$630 million. The current account deficit for 2010 is expected to stand at 14.2 percent of GDP, which is 2 percentage points higher than in 2009. Exports and imports of goods and services are projected to increase by 13.3 percent and 12.4 percent, respectively. Worker remittances are expected to increase by around 3 percent for the year. We project FDI inflows in the amount of around US$858 million for 2010, which is 12 percent higher than in 2009 and gives the economy of an important source of growth. Overall, we expect an accumulation of gross reserves in 2010 of about US$165 million.

17. In 2010–11, we expect a recovery in private capital inflows to begin. Despite considerable fiscal adjustment, the current account deficit is expected to widen marginally in 2010, owing to adverse terms of trade developments, and to narrow again in 2011. 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 have sought the Fund's continued support in covering a balance of payments gap of around $500 million in 2010.

18. Our fiscal stance for the 2010 will continue to sustain demand in a fiscally-prudent manner, with a significant continuing contribution from donor-financed spending. The overall deficit shall be sustained in line with the program targets, through continued efforts to contain spending within prudent limits.

19. 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 2013–14. Starting in 2010, we are therefore committed to an ambitious program of deficit reduction. Our target is to reduce the deficit to 7.4 percent of GDP in 2010 (SBA definition). The 2010 budget envisages sustainment of social expenditures as a share of GDP while tapping the donor funding for the bulk of infrastructure spending. Based on further expenditure containment, as well as an expected recovery of tax revenues and expected rebound in the GDP growth, we are committed to steady reductions in the deficit to 2–3 percent of GDP by 2013.

20. In the third quarter of 2009, domestic debt instruments (treasury bills) were introduced. T-bill issuance responds to a market development need—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 has been prevailingly low. The NBG has supported the development of a secondary market for T-Bills by introducing an electronic trading platform. Issuance of T-Bills in 2009 amounted to GEL 260 million. Due to limits in the capacity of the banking sector to absorb additional T-Bills, we will need to rely on external balance of payments support to finance a portion of our budgetary needs in 2010. Having channeled the January IMF drawing (SDR 47.3 million) through the budget, we do not intend to use the last prospective IMF drawing of 2010 (SDR 50 million) for budget support purposes. In the context of sustaining the agreed cap on the fiscal deficit, we expect to be able to mobilize additional budgetary support in 2010, and the Government's use of IMF resources for deficit financing will be reduced as such commitments are finalized. We intend to continue the issuance of T-Bills in 2010. Treasury Bills issued in 2009 will be entirely rolled over in 2010 and, depending on interest rates and other market conditions, approximately GEL 100 million of T-Bills will be issued in addition. In 2010 Ministry of Finance of Georgia plans to introduce 2-year Treasury Notes.

21. 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. We progressed significantly in implementing our public finance reform action plan for 2009, which implies implementation of actions in a large number of areas, including developing liquidity management guidelines, preparing the functional and technical specification for the PFMS, developing a new format of the medium-term framework (Basic Data and Directions) document, improving the format of local budgets.

22. We are currently working to devise set of reform directions for 2010. By end-September 2010 we intend to seek cabinet approval of a methodology to introduce a programmatic approach to budgeting by 2012 (structural benchmark).

23. The monetary policy transmission channel has weakened due to the crises and remains inefficient under current excess liquidity conditions. NBG considers possibility of increasing reserve requirements to the level to become binding for commercial banks, remuneration of the Lari required reserves and activation of standing facilities (Overnight loan and deposits). NBG will increase issuance of CDs with due attention not to increase interest rates to a contractionary stance.

24. In order to increase confidence in the NBG's refinancing loans and promote efficiency of the monetary policy, the NBG intends to provide commercial banks with long-term credit lines against collateral at the interest linked to the NBG's key policy rate. This new instrument is expected to increase lending in local currency and lower market interest rates.

25. As market conditions allow, the NBG will take further measures (including the extension of reserve requirements to external loans) to restore monetary policy transmission channel and promote dedollarization. We project end-period inflation to be 5 percent in 2010. This projection is, of course, sensitive to assumptions regarding the money multiplier and, in turn, commercial bank lending to the private sector, as well as international commodity price developments.

26. We remain fully committed to a flexible exchange rate policy. Continuation with the foreign exchange auctions will further contribute to determining the exchange rate through market forces, and all efforts are made to make this process as efficient as possible. The NBG does not target any exchange rate and will intervene only to smooth extreme volatility, to counter speculative pressures and if too fast and too large depreciation threatens financial stability.

27. Enhancing the competitiveness of the Georgian economy is, of course, of primary importance to us and is a 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 put it in a good position to benefit from a generalized 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.

28. To bring our official statistics in line with international standards, we improved legal framework and are now in the process of reorganizing the State Department of Statistics (new title—Geostat). New Law on State Statistics strengthens the independence of the Geostat and ensures the sustainable production of official statistics. To enhance the availability of timely and comprehensive statistics provided to the public, in H1 of 2010 we intend to become a subscriber of the IMF's Special Data Dissemination Standard (SDDS).

29. In order to ensure stable, long-term private sector-led economic growth, we have initiated a constitutional amendment whereby introduction of new state taxes or increases of top tax rates, except for excise tax and alternative and/or substitute taxes, will be allowed exclusively by way of referendum, which can be initiated solely by the President of Georgia. We believe that this will provide for stable business environment and for further assurance as to the economic reforms agenda pursued by the Government,

30. In pursuance of our reforms aimed at fostering a culture of compliance and streamlining tax and customs administration procedures, we are in the process of discussing legal amendments to achieve cost-efficiency and effectiveness gains within the Revenue Service of the Ministry of Finance. These reforms would enhance the business-friendliness of tax and customs legislation with a view of further promoting private sector-led growth.

31. We commit to implementing the recommendations provided in the recent update of the Safeguards Assessment Report according to deadlines. In particular, we agree with the

statements related to strengthening oversight function of the audit committee. After putting into operation the new systems of RTGS, Reserve Management and Banking, internal audit of the systems will be conducted.

Program Monitoring

32. All end-December performance criteria under the Stand-By Arrangement were met. We, therefore, request the completion of the Fifth Review. We will maintain our 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 the end-March and end-June PCs on the fiscal deficit, NIR and NDA according to the attached Table 1, which also establishes end-September 2010 PCs, as well as indicative targets for December 2010. The sixth review will be based on end-March 2010 performance criteria and is scheduled for completion by end-June 2010; the seventh review will be based on end-June 2010 performance criteria and is scheduled for completion by end-September 2010; and the eighth review will be based on end-September 2010 performance criteria and is scheduled for completion by end-December 2010. The revised Technical Memorandum of Understanding clarifies the measurement of NDA. Structural benchmarks under the program are described in Table 2.

34. 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 (PC) and Indicative Targets, 2009-10

	Cumulative Change from End-December 2008			Cumulative Change from End-December 2009							
	Dec-09			Mar-10		Jun-10		Sep-10		Dec-10	
	PC	Adjusted PC	Actual	PC	Proposed PC	Ind. Target	Proposed PC	Ind. Target	Proposed PC	Ind. Target	Prop. Ind. Target
						(In millions of lari)					
Ceiling on cash deficit of the consolidated government	1,638		1,536	368	333	745	737	1,060	1,089	1,393	1,393
						(In millions of U.S. dollars)					
Ceiling on contracting or guaranteeing of new nonconcessional external debt by the public sector 1/	850		277	850	…	…	…	…	…	…	…
						(In millions of lari)					
Ceiling on net domestic assets (NDA) of the NBG 2/	456	442	95	515	418	642	606	631	568	641	653
						(In millions of U.S. dollars)					
Floor on net international reserves (NIR) of the NBG 2/	740	747	987	713	781	587	685	605	733	609	706
Ceiling on accumulation of external arrears 3/	0		0	0	0	0	0	0	0	0	0
				PC	Prop. Ind. Target	Ind. Target	Prop. Ind. Target	Ind. Target	Prop. Ind. Target	Ind. Target	Prop. Ind. Target
						(In millions of U.S. dollars)					
Ceiling on contracting or guaranteeing of new nonconcessional external debt by the public sector 1/				850	850	850	850	850	850	850	850

Sources: Georgian authorities; and Fund staff estimates.

1/ It is proposed to convert the nonconcessional debt PCs into indicative targets from the end-March test date on.
2/ Actual figures and quantitative targets are based on program exchange rates.
3/ 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 NBG, 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 Performance Criterion	Observed
Appointment of the remaining members to the FSA board.	End-Jun-09	Structural Benchmark	Not observed, became redundant with elimination of FSA board
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	Observed
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	Observed

Submission to parliament of the Law on Internal Audit.	End-Sep-09	Structural Benchmark	Observed
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	Observed
Cabinet approval of a new medium-term expenditure framework (Basic Data and Directions) that includes expenditure ceilings applicable to the 2011 budget.	July 31, 2010	Structural Benchmark	
Cabinet approval of the methodology to introduce a programmatic approach to budgeting, identifying the requirements in terms of budget preparation processes and information needs.	September 30, 2010	Structural Benchmark	

GEORGIA: REVISED TECHNICAL MEMORANDUM OF UNDERSTANDING

February 25, 2010

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 November 25, 2009.

2. These performance criteria and indicative targets are reported in Tables 1 and 2 attached to the Letter of Intent dated February 25, 2010. 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, and LEPLs (Legal Entities of Public Law) that provide general government services. 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 net financing to the consolidated government which will be defined as follows:

  (i) Net lending (borrowing net of repayments) provided by commercial banks to the consolidated government plus the use of deposits held by the consolidated government at commercial banks. Monitoring of net lending and government accounts will be based on the NBG's monetary survey and Treasury data. The change in cash balances of the local government at commercial banks for budget financing purposes will be monitored based on the "budget of territorial unit" account data provided by the Treasury Department. Any securities issued by the consolidated government and purchased by commercial banks (for example, T-Bills) are also included in domestic financing.

(ii) Net lending (borrowing net of repayments) provided by the NBG to the consolidated government plus the use of deposits of the consolidated government held at the NBG. Monitoring of net lending and government accounts will be based on the Central Bank survey and Treasury data. The change in cash balances of the central government at the NBG for budget financing purposes will be monitored based on the "GEL TSA state budget" account data provided by the Treasury Department. Any securities issued by the consolidated government and purchased by the NBG (for example, T-Bills) are also included in domestic financing.

(iii) Any securities issued by the consolidated government and purchased by the nonbanks (for example, T-Bills or securitized claims on the government sold by the NBG) are also included in domestic financing.

- Net external financing is defined as the total of loans disbursed to the consolidated government for budget support (including from the IMF), and project financing (capital expenditure and net lending), net change in external arrears, change in the accounts of the consolidated government abroad, minus amortization. Amortization includes all external debt-related payments of principal by the consolidated government.

- 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. This includes receipts from the sale of shares, the sale of non-financial 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 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 securitized debt sold by the NBG, including the securities 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 in paragraph 7. Therefore, the ceiling on NDA is defined as projected reserve money (as defined in Table 3) minus the target NIR.

11. Adjustors:

The ceiling on the NDA of the NBG will be adjusted:

- (a) upward/downward by 50 percent for any shortfall/excess 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 shortfall/excess 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) downward 100 percent for any shortfall in the amount of conversion for government imports relative to the projected amounts presented in Table 2.

12. **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

13. **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

[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.

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 in Fund Arrangements (Decision No. 12274, as revised on August 31, 2009 (Decision No. 14416-(09/91) but also to commitments contracted or guaranteed for which value has not been received.[2] 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.

14. **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

15. **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.

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[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 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."

16. **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

Table 2. Projected Balance-of-Payments Support Financing 1/ (In million U.S. dollars)			
	Balance-of-payments support loans and balance-of-payments support grants	Project loans and project grants	Conversion for government imports
March 31, 2010	19.2	45.9	55.0
June 30, 2010	19.2	117.4	115.0
September 30, 2010	115.5	198.8	180.0
December 31, 2010	161.0	218.8	250.0

1/ Cumulative from the beginning of the calendar year.

Table 3. Projected Reserve Money (End of period stock in million lari)	
March 31, 2010	1,722.8
June 30, 2010	1,750.4
September 30, 2010	1,792.1
December 31, 2010	1,831.1