International Monetary Fund

Kyrgyz Republic and the IMF

Press Release: IMF Executive Board Approves US$33.73 Million Disbursement Under Rapid Credit Facility for the Kyrgyz Republic
September 15, 2010

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

August 26, 2010

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

LETTER OF INTENT

Bishkek, August 26, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431
USA

Dear Mr. Strauss-Kahn:

We write this letter to request financial assistance from the IMF at this difficult time in our country's history.

The recent ethnic conflict and the political legacy of the previous regime took a heavy toll on the Kyrgyz economy. As a consequence of the higher needs arising from the shocks faced in the second quarter of 2010, and despite our attempts to prevent the fiscal deficit from being excessively high, we face significant balance of payments and budgetary needs.

Against this background, we request access of 25 percent of quota (SDR 22.2 million, about US$34 million) through the rapid credit facility (RCF). We also request that the assistance under the RCF be channeled to the budget. We expect IMF financial support to have a catalytic effect in helping materialize pledges provided by the international donor community support in the context of the recently concluded donor conference.

The attached Memorandum of Economic and Financial Policies (MEFP) describes our policies for 2010 that we understand will form the basis for IMF support.

The government of Kyrgyz republic believes that the policies set forth in the attached MEFP will achieve the objectives of the program, but it will take any additional measures that may become appropriate for this purpose. The government will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

To benchmark our progress, we expect to meet a set of indicative targets for end-September and end-December 2010 provided in the attached table and detailed in the attached Technical Memorandum of Understanding (TMU). By meeting these indicative targets we would aim to build a track record of good performance which we hope would strengthen our case for a longer term successor arrangement, and which we expect the new government to begin negotiating with IMF staff later this year.

We hereby grant our permission for the publication on the IMF's website of the staff report, the Memorandum of Economic and Financial Policies and this Letter of Intent.

Sincerely,

/s/
Roza Otunbayeva
President of the Kyrgyz Republic

/s/
Chorobek Imashev
Minister of Finance
of the Kyrgyz Republic

/s/
Baktygul Jeenbaeva
Acting Governor of the National Bank of the
Kyrgyz Republic

Table 1. Kyrgyz Republic: Indicative Targets

(In millions of soms, unless otherwise indicated; eop)

	2009	2010	2010
	December	September	December
	Actual	Indicative Targets	Indicative Targets
1. Floor on net international reserves of the NBKR in convertible currencies (eop stock, in millions of U.S. dollars) 1/ 2/	1,242	1,242	1,422
2. Ceiling on net domestic assets of the NBKR (eop stock) 1/ 2/	-1,302	-291	-1,206
3. Ceiling on cumulative overall deficit of the general government	7,350	16,189	24,855
4. Ceiling on contracting or guaranteeing by the state government, NBKR, or any other agency acting on behalf of the state government, of new nonconcessional external debt with maturity of less than one year (continuous, in millions of U.S. dollars) 3/	0	0	0
5. Ceiling on contracting or guaranteeing by the state government, NBKR, or any other agency acting on behalf of the state overnment, of new nonconcessional external debt with maturity of one year or more (continuous, millions of U.S. dollars) 3/	0	0	0
6. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0

Sources: Kyrgyz authorities; and Fund staff estimates and projections.

1/ As defined in the TMU.

2/ The target excludes medium- and long-term central bank liabilities (i.e., the loan by the Eximbank of Turkey and the EBRD/IDA enterprise loan channeled through the NBKR).

3/ External debt contracted or guaranteed other than with a grant element equivalent to 35 percent or more, calculated using a discount rate based on the OECD commercial interest reference rates. Excludes borrowing from the IMF.

Table 2. Kyrgyz Republic: Prior Actions

Measure	Responsible Agency
Issue a closed tender and terms of reference to companies shortlisted by the EBRD to conduct a forensic audit and valuation of shares of the AUB.	NBKR
Sign an updated February 6, 2010 Memorandum of Understanding on management of foreign exchange reserves and the channeling of IMF budget support to the budget.	NBKR, Ministry of Finance

KYRGYZ REPUBLIC: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES (MEFP) FOR SEPTEMBER-DECEMBER 2010

This memorandum complements the letter of intent and sets out the economic and financial policies of the current caretaker administration of the Kyrgyz Republic for the period September–December 2010. These policies are the basis for the IMF-supported Rapid Credit Facility (RCF).

A. Recent political developments

1. In early April 2010, there were political demonstrations in various cities against the previous regime because of allegations of authoritarianism, corruption and taking social policy decisions without adequate public consultation. Following popular protests, the President was removed and replaced by an interim government, headed by a coalition of opposition political and civic leaders. The events led to loss of life and injuries to persons, destruction of private and public property, a weakening of private sector confidence, and economic and fiscal pressures.

2. In June 2010, ethnic tensions in the south of the country erupted in violent clashes over a period of three days in the cities of Jalalabad and Osh. These were perhaps the most catastrophic events in our country's history—hundreds of people lost their lives and were injured, 75,000 fled the violence to neighboring Uzbekistan and a further 300,000 were displaced inside the country, though most of the refugees and displaced have returned. Conditions in the south of the country remain dire and highly volatile with continued inter-ethnic distrust and low-intensity conflict, lack of adequate security and deep scars of the June violence.

3. Achieving social and political stability and maintaining security after these shocks is necessary for economic and social recovery, and in our view would require substantial public resources. A joint donor economic assessment, which included contributions from IMF staff, pointed to a significant increase in the need for rehabilitation and resettlement of the affected, strengthening security, reconstructing infrastructure and, providing housing and livelihood support, while paying attention to inter-ethnic equity—without which there would likely be an aggravation of tensions and violence in future.

B. Impacts on the economy and policy response

4. The April and June shocks are expected to take a serious toll on the economy. We expect the nongold economy to shrink by 4–5 percent in 2010, with agriculture, which accounts for about a quarter of the economy, expected to contract by 8 percent. Border closures and domestic insecurity have affected services, including trade, which is also expected to fall by 12–13 percent. Investor confidence has been badly shaken. On the positive side, strong gold output, construction of Kambarata-II hydro power station and

favorable water reservoir levels that improve the prospects for electricity generation, are likely to mitigate the adverse effects on output.

5. The external sector will also suffer, with the current account expected to turn to a deficit of 5.4 percent of GDP, compared to a surplus of about 2 percent in 2009. Exports of goods and services, including tourism, will decline sharply, though, while we expect underlying imports to also fall as the economy contracts, reconstruction activities and the implementation of a large FDI project at the Kumtor gold mining company, will support imports of raw materials and machinery, while fuel imports at a higher export duty imposed by Russia will increase the value of oil product imports. A large increase in the trade deficit will be somewhat mitigated by robust growth in remittances, mainly from Russia.

6. The crisis has increased fiscal pressures and will lead to a significant widening of the budget deficit in 2010. The overall deficit will increase from 3.7 percent in 2009 to 12 percent in 2010, largely on account of the need to increase crisis-related spending. Rehabilitation and resettlement costs will raise expenditures under goods and services, while reconstruction activities, especially those to find a solution to near term housing problem in the south, would result in a large increase in capital spending in 2010 and beyond. To strengthen internal security we expect to substantially increase spending on security related personnel through increasing recruitment and salaries. Banking problems (as described in detail below) would also be costly for the budget, either through a loss of deposits of government and government entities, or the need for bank recapitalization.

7. Revenues will likely suffer because of the crisis, as the economy shrinks and trade is affected by border closures, but we have taken steps to minimize slippages. While we had to grant tax relief to businesses that were affected by the crisis in the south, we have in general not used tax relief as a policy tool to support business activity. So far in the year, tax revenues have performed better than at the same time last year–mainly because of better than expected output at the Kumtor gold company and rising international gold prices. While unable to change tax policy at this time, we plan to strengthen tax revenue administration—through a reduction in excise tax categories and governance measures to increase the share of official custom revenues on goods imported from China—and also expect nontax revenues—including revenues derived from confiscation of money and sale of assets recovered from those associated with the previous regime—to provide some relief.

8. A significant part of the budgetary needs would have to be financed through external support. To avoid an unsustainable increase in our external indebtedness and interest burden, we have requested the donors to provide assistance either in the form of grants, or highly concessional loans. In this vein, while we welcome donor support for the rehabilitation and recovery effort, we will continue to also use our own resources—primarily saved bilateral assistance received from Russia in 2009—to finance the budget.

9. The political crisis in April and the subsequent events in the south in June took a direct toll on the banking system. Banks associated with the previous regime suffered immediate losses of nonresident deposits and liquidity. The loan portfolio of Asia Universal Bank (AUB), the largest and systemically important bank, has been affected by connected and insider lending, and loan quality has deteriorated, particularly following the events in the south where the bank had significant exposure. We have also discovered since the change of government, that AUB is insolvent, and under severe liquidity stress because of alleged securities fraud. The situation has been further complicated by a recent court decision to hand over AUB assets that were acquired from Kyrgyz Promstroi Bank in 2007, back to the original owners. This decision is now under consideration in the courts.

10. To protect the health of the banking system, we took immediate measures to prevent further deterioration. Six banks were put under temporary administration—subsequently reduced to four—and AUB was placed under conservatorship and its shares were nationalized, with its operations restricted significantly. With the bank running out of liquidity and risks of a systemic deposit run elevated, we decided in mid-August to restructure it by spinning off a new bank with the good assets and senior liabilities, and leaving impaired assets, connected loans and some government liabilities with the bad bank (AUB). The process of restructuring is ongoing. With the need to capitalize the new bank and the likelihood of incurring losses on government deposits at the bad bank, fiscal costs of the AUB problem are likely to be high. We are grateful to the IMF for providing timely technical assistance on bank restructuring and resolution.

11. The crisis has led to reduction in system deposits and credit, and added to monetary policy challenges. The uncertainties associated with political crisis and the resulting insecurity, as well as banking sector troubles, have driven people to increase their cash holdings. While deposits have been shrinking since the crisis, there has been no generalized bank run. The crisis has also impacted credit to the private sector—the weak economic prospects mean low demand for credit, while banking troubles as well as nervousness about credit risk restrains the provision of credit by the financial sector.

12. Our government, which came to power following the popular overthrow of a regime that was perceived as corrupt, sees achieving high standards of governance and transparency as one of its primary responsibilities to the people of the Republic. Not only are we focused on improving and strengthening our laws and enforcement mechanisms against corruption and abuse of power, we have strengthened our constitution to introduce checks and balance on the executive and are committed to pursuing those responsible for corruption and improprieties in the past. In this vein, we have already brought legal cases against, and seized the assets of those involved in criminal activities. We have taken steps to strengthen key public institutions—we have dissolved the Central Agency for Development Investments and Institutions (CADII) and returned the main economic policy functions to the Ministry of Finance, the Ministry of Economic Regulation and the central bank. Many national assets

that had been hastily and non-transparently privatized by the previous regime have been nationalized and are awaiting privatization through a transparent and open bidding process.

C. Policy intentions

13. The overall policy objective of the current caretaker government is to ensure a smooth transition to a new political system, and a new government following the elections in October, while maintaining macroeconomic stability and, minimizing the social and economic damage of the crisis.

14. We acknowledge the risks to macroeconomic stability and debt sustainability associated with the large planned expansion of the fiscal deficit envisaged this year. While the dire need to respond adequately to the crisis would prevent us from significantly moderating spending, we undertake that we will keep the overall deficit within the parameters agreed with IMF staff under the Rapid Credit Facility (RCF). To mitigate the medium term implications of the fiscal expansion, we will avoid committing to further entitlement spending, such as wages and pensions. Should it not be feasible, or effective, to incur large spending this year because of the limited time remaining till the end of the year, we may delay some of the spending till next year, if appropriate. Because of a shortfall in donor financing compared to the estimates presented in the Joint Economic Assessment Report, we have reduced low priority spending, namely, capital expenditures on various small projects not related to the crisis in the south. In case of further shortfall in external financing in the period ahead, we will reduce purchases of goods and services.

15. We are committed to macroeconomic stability and low inflation. To this end we will remain vigilant to the challenges monetary and exchange rate policy would face this year. On the one hand there is a need to support the post-crisis economic recovery while on the other, the significant fiscal expansion could also increase monetary aggregates leading to exchange rate and inflationary pressures later in the year. The National Bank of Kyrgyz Republic (NBKR) will mop up excess liquidity by sterilizing through NBKR notes. If continued political and security uncertainty or fiscal expansion lead to sustained pressures in the foreign exchange market, we will allow the exchange rate to adjust flexibly, while smoothing any excessive short-term volatility through interventions in the market.

16. We will strive to swiftly and decisively address the problems in the financial sector—in AUB and in other banks under temporary administration. We plan to move promptly to complete the restructuring of AUB. An important next step is to obtain a fuller picture of the balance sheet of the bank through a forensic audit and valuation of shares, and we are soliciting the help of EBRD to choose an appropriate firm and defray the costs. We will make the issuance of a closed tender and terms of reference to companies shortlisted by the EBRD as a prior action for the RCF disbursement (see Table 2). We have asked for donor support in hiring a legal team to help us through the legal hurdles in bank resolution and to hire a professional bank management team, if needed. We are also developing an action plan

to exit from the temporary administration in other banks and expect to have it completed by end-September.

17. We plan to continue taking concrete steps to improve governance safeguards and transparency.

a. As mentioned above, we will initiate a forensic audit and valuation of assets of AUB to uncover the improprieties that led to the problems in the bank and will take the appropriate punitive action, in accordance with the existing legislation, against those responsible.

b. Most of the resources of the now defunct Kyrgyz Republic Development Fund, currently under liquidation, were successfully repatriated from overseas just prior to the change of government—made possible because of IMF conditionality under the ESF program. We are committed to undertaking a forensic audit of the KRDF to ensure the bilateral resources the country received in 2009 are properly accounted for and to take appropriate legal action if they were misappropriated. We are currently seeking donor help in identifying and obtaining financing for an audit firm.

c. To improve the confidence of domestic stakeholders and external partners in the public expenditure process in the country, we will particularly focus on the quality and accountability of the public resources spent. As we also mentioned at the Donor Conference held in Bishkek on July 27, 2010, the current government is committed to working closely with the external partners, ensuring transparent and open use of the donor resources and strengthening public financial management. We are in the process of setting up a committee comprising representatives of government and civil society to provide oversight of public and donor spending in the south.

18. The recent formation of the Russia-Kazakhstan-Belarus customs union has created uncertainties for the country. We are currently studying how this customs union affects the Kyrgyz Republic, and once a fuller picture on the pros and cons is available, we will decide whether to join the union or not. Kyrgyz Republic is a member of the WTO and any agreements on trading arrangements in the future would have to be consistent with our commitments under WTO.

19. Complications arose in implementing a debt forgiveness agreement we signed with the Russian Federation in 2009. While the Kyrgyz government felt it had abided by the agreement, we were informed by our Russian counterparts that this was not their impression. We are now seeking a quick resolution to the dispute and have started negotiations with the Russian Federation in this regard.

D. Program issues

20. To benchmark our progress, we expect to meet a set of indicative targets for end-September and end-December 2010, including indicative ceilings on the central government's fiscal deficit and, the central bank's net domestic assets and an indicative floor on its net international reserves within the limits specified in Table 1 attached to this letter and described in more detail in the attached Technical Memorandum of Understanding (TMU). By meeting these indicative targets we would aim to build a track record of good performance which we hope would strengthen our case for a longer term successor arrangement, and which we expect the new government to begin negotiating with IMF staff later this year.

21. To enhance safeguards, we confirm that the NBKR remains the exclusive authority in charge of foreign exchange reserves. We also agree to the approval of the updated February 6, 2010 Memorandum of Understanding between the NBKR and the Ministry of Finance—covering management of foreign exchange reserves and the channeling of IMF budget support to the latter—as a prior action for the RCF disbursement (see Table 2).

KYRGYZ REPUBLIC: TECHNICAL MEMORANDUM OF UNDERSTANDING

I. INTRODUCTION

1. This memorandum describes the definitions of the quantitative indicative targets for the economic program of the Kyrgyz authorities during the period September 15, 2010–December 31, 2010 to be supported under the Rapid Credit Facility (RCF). These indicators, presented in Table 1 of the attached Letter of Intent dated August 26, 2010 reflect the understandings reached between the authorities of the Kyrgyz Republic and the staff of the IMF.

2. The program exchange rate of the KGS to the U.S. dollar is set at KGS 38.2101 = US$1. The corresponding cross exchange rates and program gold price for the duration of the program are provided in Table 2.

3. Central government and republican government are synonymous in this memorandum. The State budget comprises central and local government budgets. The general government budget includes (effective of September 1, 2009) the State, Social Fund and the Development Fund (hereinafter, KRDF) budgets.

4. Quantitative indicative targets have been set for end-September, and end-December 2010. Indicative targets for new nonconcessional external debt are continuous.

II. INDICATIVE TARGETS

A. Floor on net international reserves of the National Bank of the Kyrgyz Republic (NBKR) in convertible currencies[1]

5. The program contains a floor on the stock of net international reserves of the NBKR in convertible currencies. This floor will be calculated as the difference between total international reserve assets and total international reserve liabilities of the NBKR in convertible currencies.

6. Total international reserve assets of the NBKR are defined as the NBKR holdings of monetary gold, holdings of SDRs, reserve position in the IMF, and any holdings of convertible foreign currencies in cash or with foreign banks, and debt instruments issued by nonresidents that are liquid. Accrued interest on deposits, loans and debt securities are included in the reserve assets and liabilities, correspondingly. Reserve assets pledged as collateral or otherwise encumbered, capital subscriptions in foreign financial institutions, and

[1] Convertible currencies are defined as currencies that are freely usable for settlements of international transactions.

illiquid assets of the NBKR are excluded. Also excluded are net forward positions, defined as the difference between the face value of foreign currency denominated NBKR off-balance sheet claims on nonresidents and foreign currency obligations to both residents and nonresidents. Total international reserve liabilities of the NBKR in convertible currencies are defined as the sum of Kyrgyz Republic's outstanding liabilities to the IMF and other convertible currency liabilities to nonresidents with an original maturity of up to and including one year. Thus defined, the NIR is not affected when foreign assets are received by the NBKR through the foreign currency swaps with resident financial institutions, as both the total international reserve assets and liabilities rise. Total international reserves and NIR decline with the provision of the foreign assets by the NBKR through the foreign currency swaps with the resident financial institutions[2]. For program monitoring purposes, total international reserve assets and liabilities will be valued at the program exchange rates as described in paragraph 2 above. Thus calculated, the stock of net international reserves in convertible currencies amounted to US$1,242 million at December 31, 2009.

7. As under the latest accounting guidelines (BPM6), NIR increased with the allocation of SDR in August, 2009, which is treated as a long-term foreign currency liability of the Kyrgyz Republic to the SDR Department of the IMF, instead of a debt liability or shares and equity, as in the Monetary and Financial Statistics Manual (MFSM). This allocation has no impact on net foreign assets, because both gross foreign assets and long-term liabilities increase.

8. The NBKR's net foreign assets consist of net international reserve assets plus other net foreign assets, including the medium- and long-term foreign obligations of the NBKR, other net claims on CIS countries, reserve assets pledged as collateral or otherwise encumbered, net forward positions, capital subscriptions in foreign financial institutions, and illiquid assets. For program monitoring purposes, the other net foreign assets will also be valued at the program exchange rates.

9. The floor on net international reserves of the NBKR will be adjusted upward/downward to the full extent of any excess/shortfall in program grants and program loans as given in Table 1 and upward/downward to the full extent that amortization and interest payments of public external debt is less/more than the amortization and interest payments given in Table 1.

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[2] In case of a foreign currency swap that involves receipt of foreign currency by the NBKR and transfer of local currency to a resident financial institution, total international reserves increase, NIR is unchanged and net claims on domestic banks in soms increase. In case of a foreign currency swap that involves transfer of foreign currency by the NBKR and receipt of local currency from a resident financial institution, total international assets and NIR decline, while the NBKR net claims on resident banks remain unchanged.

B. Ceiling on the net domestic assets of the NBKR

10. Net domestic assets of the NBKR are defined as reserve money of the NBKR (defined below), minus the NBKR's net foreign assets as defined above, minus the counterpart of the loan by the Eximbank of Turkey and the counterpart of the EBRD and IDA enterprise loans. Items in foreign currencies will be valued at the program exchange rates.

NDA=RM–NFA–Turkish Loan–EBRD-IDA Enterprise Loan

11. Thus defined, the NBKR's net domestic assets consist of: (a) gross credit to the general government from the NBKR, minus deposits of the general government with the NBKR, minus the counterpart of the loan by the Eximbank of Turkey; (b) gross credit to domestic banks by the NBKR, minus the counterpart of the EBRD and IDA enterprise loans; and (c) all other net assets of the NBKR (other items net). Thus defined, the stock of the NBKR's net domestic assets amounted to minus KGS 1,302 million on December 31, 2009.

12. The ceiling on net domestic assets of the NBKR will be adjusted downward/upward to the full extent of any excess/shortfall in program grants and program loans as given in table 1 and downward/upward to the full extent that amortization and interest payments of public external debt is more/less than the programmed amortization and interest payments given in Table 1.

C. Ceiling on the cumulative overall cash deficit of the general government

13. The overall cash deficit of the general government will be measured from the financing side (below the line) at current exchange rates and will be defined as the sum of: (a) the change in the stock of net claims of the domestic banking system and nonfinancial institutions and households on the general government; (b) the change in the stock of net claims of the foreign governments, banking system and nonfinancial institutions and households on the general government; (c) net privatization receipts, i.e. any new sales net of purchases of shares; (d) net foreign loans disbursed to the general government for budgetary support, including from the IMF; (e) net foreign loans disbursed to the general government for project financing. The indicative targets for the fiscal balance are calculated on the projected KGS/U.S. dollar average exchange rate of 46.6. Reporting and adjustments, as defined in paragraph 14, will be made using current exchange rates.

14. The change in the stock of net claims of the domestic banking system on the general government is defined as the change in the stock of the banking system claims on the general government, less the change in the stock of all deposits of the general government with the banking system. The claims of the banking system on the general government include: (a) bank loans to the general government; (b) any securities issued by the general government and held by domestic banks, with the exception of those issued in relation with bank rescue operations; and (c) overdrafts on the current accounts of the general government with banks.

Table 1. Projected Budget Support and Amortization
(In millions of U.S. dollars)

	2010	
	Q3	Q4
Program grants	13.1	81.4
Program loans	33.0	147.5
Amortization of public external debt	8.3	14.5
Interest payments	16.7	5.3

D. Ceilings on contracting or guaranteeing of new external debt by the government of the Kyrgyz Republic or the NBKR or any other agency acting on behalf of the government

15. In connection with the contracting or guaranteeing of external debt by the government of the Kyrgyz Republic, the NBKR, or any other agency acting on behalf of the government of the Kyrgyz Republic, "debt" is understood to have the meaning set out in Executive Board Decision No. 12274, Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)).[3] For program purposes, external debt is defined based on the residency criterion.

16. External debt ceilings apply to (a) the contracting or guaranteeing of new nonconcessional short term external debt (i.e. external debt with an original maturity of less

[3] Debt is 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. Debt can take a number of forms, the primary ones being as follows: (a) loans, i.e., advances of money to the 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); (b) 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 (c) 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 lessor 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.
Under the above definition of debt, 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.

than one year and grant element less that 35 percent[4], except normal import-related credits and NBKR reserve liabilities); and (b) contracting or guaranteeing of nonconcessional medium- and long-term external debt (i.e., external debt with an original maturity of one year or more and with grant element of less that 35 percent). Disbursements by the IMF are excluded from the ceilings on external debt. Also excluded from these external debt ceilings is the contracting or guaranteeing of new external debt that constitutes a rescheduling or refinancing of existing external debt at terms more favorable to the debtor. The limit on the contracting or guaranteeing of short-term external debt is zero on a continuous basis. The limit on the contracting or guaranteeing of medium- and long-term nonconcessional external debt is also zero and on a continuous basis, as specified in Table 1 of the economic program of the authorities.

17. For the purposes of the ceiling on contracting and guaranteeing new nonconcessional external debt, any other agency acting on behalf of the government will in particular include all nonfinancial public enterprises (enterprises and agencies, excluding public banks in which the government holds a controlling stake—typically owns more than 50 percent of the shares, but which are not consolidated in the budget).[5]

18. For program purposes, the guarantee of a debt arises from any explicit legal obligation of the government of the Kyrgyz Republic, the NBKR, or any other agency acting on behalf of the government of the Kyrgyz Republic to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or from any implicit legal or contractual obligation of the government of the Kyrgyz Republic, the NBKR, or any other agency acting on behalf of the government of the Kyrgyz Republic to finance partially or in full any a shortfall incurred by the debtor.

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[4] The grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more). The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

[5] Government control of an entity can be established based on the following criteria: (i) ownership of the majority of the voting interest; (ii) control of the board or other governing body; (iii) control of the appointment and removal of key personnel; (iv) control of key committees of the entity; (v) golden shares and options; (vi) regulation and control; (vii) control by a dominant public sector customer or group of public sector customers; and (viii) control attached to borrowing from the government.

E. Ceiling on accumulation of new external payments arrears

19. External payment arrears will consist of all debt-service obligations (i.e., payments of principal or interest) arising in respect of any debt contracted or guaranteed or assumed by the government of the Kyrgyz Republic, or the NBKR, or any agency acting on behalf of the government of the Kyrgyz Republic, including, without limitations, unpaid penalties, interest charges or judicially awarded damages associated with these arrears owed by the state government of the Kyrgyz Republic, or the NBKR, or any agency acting on behalf of the government of the Kyrgyz Republic. The ceiling on new external payment arrears shall apply on a continuous basis.

III. Reporting Requirements

20. The government and the NBKR will provide the IMF with the necessary economic and financial statistical data to monitor economic developments and the indicative targets. In particular, the government and the NBKR will provide the following specific information:[6]

A. The balance sheet of the NBKR

21. The NBKR will provide to the IMF its balance sheet on a daily basis. The information provided will clearly identify the following items in the definitions specified above: the gross foreign assets and liabilities of the NBKR, decomposed by currency and instrument for the assets and by currency and creditor for the liabilities (decomposition provided on a monthly basis); the net foreign assets of the NBKR; the net international reserves of the NBKR; medium- and long-term liabilities; the net domestic assets of the NBKR; net credit from the NBKR to the general government, disaggregated by state government and the KRDF; net credit from the NBKR to commercial banks; the balance of unused PIP funds held in the NBKR; other items net; and reserve money. The balance sheet will be provided using both actual and program exchange rates. The above information will be provided to the IMF Resident Representative and/or transmitted by e-mail to the IMF.

B. Monetary survey

22. Monthly banking system data, in the form of monetary surveys of the banking sector and other depository corporations, will be reported to the IMF by the NBKR within 14 days of the end of the month. The information provided will clearly identify the following items: net foreign assets and net domestic assets of the banking system, medium- and long-term liabilities, net credit from the banking system to the general government disaggregated by the state government, the social fund and the KRDF, financing provided to the rest of the

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[6] Any correction or revisions to data previously reported should be clearly indicated and documented along with the reasons for revision.

economy, other items net, and broad money. The monetary survey will be provided using both program and actual exchange rates.

23. The NBKR will provide monthly data to the IMF within seven days after the end of the month on the amount of holdings of treasury bills, treasury bonds and other securities issued by the state government, differentiated by the following categories of holders: the NBKR, resident banks, resident nonbanks (including separately the social fund and deposit insurance fund), and nonresidents. The information will be provided in both the book (nominal) value and the actual value, where applicable.

C. International reserves and key financial indicators

24. The NBKR will provide detailed monthly data within 14 days from the end of the month on the composition of both its gross and net international reserves in convertible currencies and holdings of monetary gold. These data will be provided at two alternative sets of the exchange rates and the gold price: first, at those used to derive the NFA position in the NBKR accounts; second, at those specified in the program (Section I). The NBKR will also provide data on net foreign financing flows, including disbursements of program loans and grants, amortization, interest payments on external debt, interest income on reserves, other direct foreign currency payments by the Government and the NBKR. In addition, weekly reports should be sent to the IMF on (a) nominal exchange rates (including the official and interbank exchange rates), foreign exchange interbank market turnover, and the volume of NBKR foreign exchange sales and purchases in the domestic interbank market and with other parties, on a daily basis; and (b) treasury bill yields and the amount of treasury bill sales and redemptions on a weekly basis every Monday. On the 25th day of the month following the reference month, the NBKR will provide indicators of financial soundness of the banking system, including the ratios of regulatory capital to risk-weighted assets, nonperforming loans to total loans, and return on equity, as well as data on bank deposit and lending rates by maturity and ownership.

D. External debt

25. The Ministry of Finance, together with the NBKR, will provide monthly information on the disbursements, principal and interest payment—both actual and falling due; on contracting and guaranteeing of medium- and long-term external loans by the state government, non-financial public enterprises and the NBKR; and any stock of outstanding arrears on external debt service payments within 21 days of the end of each month. In addition, the Ministry of Finance will report the total amount of outstanding government guarantees and external arrears on a monthly basis. While the NBKR will provide the debt service payment data on private debt, the ministry of finance will provide data on debt service on public and publicly guaranteed loans.

E. Budgetary and extra budgetary data

26. In addition to the monthly treasury report, the Social Fund will report monthly on its operations. This information will be provided to the Fund staff within 26 days from the end of each reference month. The Ministry of Finance will also provide monthly reports on the disbursements and use under the public investment program and budgetary grants with a one-month time lag.

F. Balance of payments data

27. The NBKR will provide current account and capital account data, including data on foreign trade, services, official and private transfers, foreign investment, and disbursements of public and private loans, on a quarterly basis, with at most a three-month lag. The NBKR will also provide monthly foreign trade data with a two-month lag.

G. Other general economic information

28. The National Statistics Committee will notify the IMF of the monthly Consumer Price Index by category by the 15th business day of the following month, and convey monthly GDP estimates within 30 days of the end of each month.

Table 2. Program Cross Exchange Rates and Gold Price

Abbreviation	Currency Name	Currency/US$	US$/Currency
AUD	Australian Dollar	0.6329	1.5800
CAD	Canadian Dollar	0.7823	1.2783
CHF	Swiss Franc	0.8539	1.1711
CNY	Chinese Yuan	6.8488	0.1460
EUR	Euro	0.7940	1.2595
GBP	UK pound sterling	0.6392	1.5645
JPY	Japanese Yen	93.9908	0.0106
KZT	Kazakh Tenge	119.7809	0.0083
RUR	Russian Ruble	27.0591	0.0370
SDR	SDR	0.6700	1.4925
XAU	Gold ($/troy ounce)	692.5000	…