International Monetary Fund

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

June 2, 2011

KYRGYZ REPUBLIC: LETTER OF INTENT

June 2, 2011

Mr. John Lipsky
Acting Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, DC 20431

Dear Mr. Lipsky:

The Kyrgyz Republic suffered from a deep political crisis last year. In April 2010, a popular uprising toppled the previous regime and the tragic events of June 2010 exacerbated the already difficult political situation. Following the joint economic assessment and the donor conference in mid-2010, the IMF was the first international financial institution to support the Kyrgyz Republic. Financial assistance provided under the Rapid Credit Facility (RCF) in September 2010 supported our country at a very difficult time in our history and was instrumental in mobilizing much-needed donor assistance. Parliamentary elections took place in October 2010 and a new coalition government took office in December 2010. We believe that the shift to a parliamentary democracy provides new opportunities to break with the past and strengthen governance and reform the economy.

The fallout from the domestic crisis has posed significant challenges. The economy contracted last year, straining the government's financial position, further exacerbated by critical reconciliation, recovery and reconstruction needs. Moreover, the global food and fuel price shock triggered a sharp rise in inflation, eroding real incomes of the most vulnerable part of the population. Business confidence deteriorated, hampering prospects for private sector-led economic recovery.

The Kyrgyz authorities are determined to take prompt actions and implement a macroeconomic and structural reform program that will support the economic recovery in the short term and place the country on the road to stronger sustained and inclusive growth in the medium term, while preserving macroeconomic stability and debt sustainability. We will also develop a comprehensive Country Development Strategy. Governance problems that had been mounting in the past also need to be addressed in a comprehensive manner.

Against this background, we hereby request Fund support under a new three-year Extended Credit Facility (ECF) arrangement in an amount equivalent to SDR 66.6 million and the first disbursement in an amount equivalent to SDR 9.514 million upon the approval of the arrangement. We also request that the first two disbursements under the ECF arrangement be channeled to the budget. The new Fund-supported program (June 2011–June 2014) will provide a coherent macroeconomic framework that will support our efforts to restore macroeconomic stability, rebuild macroeconomic policy buffers, promote inclusive growth in a low inflation environment, achieve medium-term fiscal consolidation, address weaknesses in the financial sector, and catalyze critical donor support, which would allow us to keep reserves at a comfortable level.

The observance of all end-2010 indicative targets under the RCF allowed the new government to build a track record, which we consider an important prerequisite for a medium-term program engagement with the IMF.

The attached Memorandum of Economic and Financial Policies (MEFP) outlines our macroeconomic objectives for 2011–14 and provides specific measures for 2011–12. We are committed to the objectives of our Fund-supported program recognizing that disbursements under the ECF arrangement are subject to observance of performance criteria, fulfillment of prior action(s), and completion of program reviews. The government believes that the policies set out in the attached MEFP are adequate to achieve the objectives of the Fund-supported program, but stands ready to take additional measures. The Kyrgyz Republic will consult with the Fund on such measures and in advance of any revision to policies contained in the MEFP, in accordance with the Fund's policies. During the Fund-supported program period the government will not introduce any exchange rate restrictions, multiple currency practice, and import restrictions for balance of payments purposes, and will continue to comply with all obligations under Article VIII of the IMF's Articles of Agreements.

In line with our commitment to transparency in government operations, which we believe is essential for good governance, we consent to the publication of all ECF-related documents circulated to the IMF Executive Board on the IMF's web site.

/s/

Almazbek Atambaev
Prime Minister of the Kyrgyz Republic

/s/	/s/
Melis Mambetjanov Minister of Finance of the Kyrgyz Republic	Baktygul Jeenbaeva Acting Chairperson of the National Bank of the Kyrgyz Republic

Appendix II. Kyrgyz Republic: Memorandum of Economic and Financial Policies (MEFP) for 2011–14

June 2, 2011

I. Introduction

1. This Memorandum sets out the economic and financial policies of the government of the Kyrgyz Republic for 2011–14, which aim at rebalancing the policy mix to restore macroeconomic stability and rebuild policy buffers through fiscal consolidation while protecting social outlays, strengthening financial sector stability, and addressing governance problems. These policies form the basis for a new three-year Fund-supported program under an Extended Credit Facility (ECF).

II. Background and Program Objectives

2. **The interim government, which took office following the April 2010 revolution, faced a difficult task to restore security in the country and to transfer power to the newly elected government.** The new constitution approved in June 2010 balanced the power between the parliament and the government and established the first Central Asian parliamentary democracy. We also conducted successful parliamentary elections, which were assessed by international observers as fair and democratic. Following the elections, a three-party ruling coalition was formed and a new government appointed at the end of 2010. The overarching objective of the caretaker government to ensure a smooth transition to a new political system with minimal social cost and economic damage was met, enabling us to focus on key economic issues.

3. **While the Kyrgyz economy showed signs of recovery from the global economic crisis in the first quarter of 2010, the events of 2010 took a heavy toll on growth.** During the first quarter of 2010 real GDP grew by an impressive 16 percent, driven by strong gold production and a pickup in industrial production and construction. The collapse of the government in April 2010 and the tragic events of June 2010 reversed these positive developments and the economy contracted by 1.4 percent in 2010, primarily due to negative growth in construction, agriculture, and trade. Border closures and internal security concerns disrupted normal trade flows, resulting in losses by the traditional export industries and a sharp drop in supply.

4. **The external position deteriorated in 2010.** The current account shifted from a surplus of about 1 percent of GDP in 2009 to a 2 percent of GDP deficit. Reserve coverage dropped from 4.9 to 4.2 months of imports, although the decline would have been larger without external financial assistance from bilateral and multilateral donors following the July 2010 donor conference in Bishkek. In addition, high gold prices, coupled with increasing gold production, boosted export earnings and the economic recovery in Russia helped to bolster remittance inflows.

5. **Rising international food and fuel prices led to a surge in inflation from 3.5 percent in June 2010 to 20.8 percent in March 2011.** While the removal of the fuel export duty by Russia in January of this year partially offset the impact from rising commodity prices, supply shortages stemming from security concerns aggravated the problem and we are concerned that inflationary expectations have become entrenched. We have therefore tightened monetary policy by raising reserve requirements, increasing the policy rate and intensifying open market operations.

6. **The Joint Economic Assessment prepared by the international community with the Fund's active participation identified significant financing needs for reconciliation, recovery, and reconstruction**. Donors pledged US$1.1 billion in assistance over the period of 18 months to deal with the consequences of the 2010 events. As of April 2011, the total contracted amount was US$380 million. We call upon the donor community to fulfill their pledges.

7. **We are committed to restoring macroeconomic stability and have already taken number of measures towards this end.** We realize that a comprehensive and homegrown medium-term country development strategy is necessary to set the foundation for putting the economy back on a sustainable growth path. Work on such a strategy has already begun with the assistance of our development partners and we expect it to be finalized by the end of this year. Meanwhile, in March, the government approved an Action Plan for Economic Security (APES) for 2011, which puts forward measures intended to remove the immediate obstacles to economic growth and poverty reduction. These measures, some of which are included in this memorandum, aim at strengthening public finances and improving governance. We will rigorously monitor the implementation of this plan, which can be considered as our short-term work program.

8. **Over the medium term, we are committed to implementing sound macroeconomic and structural policies.** These policies will allow us to reestablish macroeconomic stability, fully utilize the economic growth potential, curb inflation, reduce the fiscal deficit, strengthen the financial sector, improve the external position, and enhance the role of the private sector in the economy. The shift to a more democratic political system enables us to break with the past and strengthen governance, which will be the cornerstone of our reforms. We also believe that the ECF arrangement will help mobilize official external financing to support these objectives. We read with interest the Ex Post Assessment of Longer-Term Program Engagement report for the Kyrgyz Republic prepared by IMF staff and incorporated the main findings of the report into the design of our new Fund-supported program.

III. Policies for 2011 and Beyond

9. **A gradual economic recovery and return to a stable macroeconomic position is the cornerstone of our Fund-supported program.** In particular:

- We expect real GDP to grow by about 6 percent on average during 2011–14 on the back of continued political stability and a rebound in agriculture, trade and construction.

- Our tight monetary policy stance will help to reduce inflation in 2011 but it is still expected to remain in the lower double digits. In 2012 inflation will continue to subside and stabilize at about 7.5 percent in 2013–14, largely reflecting normalization of trade, stabilization of international food and fuel prices, and prudent fiscal policies.

- The general government deficit, excluding Chinese-financed investment projects, will be brought down to 4.4 percent of GDP by 2014, primarily on account of tax administration and tax policy measures (see below).

- The current account deficit will increase in 2011 and gradually decline over the medium term. However, strong import demand including foreign-financed energy related public investments will prevent the current account deficit to improve faster. The ECF-supported program is expected to catalyze significant donor support, which will help to finance the current account deficits and maintain comfortable reserve levels.

A. Fiscal policy

10. **We wish to emphasize that the 2010 fiscal deficit was significantly lower than anticipated under the Rapid Credit Facility (RCF).** The caretaker administration's cautious approach, a shortfall in planned external financing, solid gold related tax receipts, including advance payments, and delays in the capitalization of Zalkar bank created from Asia Universal Bank (AUB), resulted in a fiscal deficit of less than 7 percent of GDP in contrast to 12 percent of GDP projected earlier. In addition, capacity constraints, which did not allow us to fully execute capital expenditure projects in the south to rebuild housing and infrastructure damaged during the events of June 2010, led to spending underexecution. At the same time, we have fully executed our social commitments.

11. **Recognizing risks to macroeconomic stability, we envisage a less expansionary fiscal stance in 2011 compared to the projections at the time of the RCF.** The general government overall deficit is now projected at 7.6 percent of GDP. On the back of rapidly rising inflation and public discontent from the previous governments' inaction to address pressing social problems, we substantially raised salaries for teachers, healthcare workers, and other social sector workers. This decision, which became effective on May 1, 2011, will allow the majority of about 180,000 social sector employees to earn incomes just above the subsistence level. At the same time, mindful of the capacity limitations and to accommodate the salary increase we revised downward capital expenditures. While the salary reform helps

to mitigate potential risks to social stability, it will likely contribute to inflationary pressures. To this end the government and the National Bank of the Kyrgyz Republic (NBKR) will closely coordinate fiscal and monetary operations to mitigate the inflationary impact from the expansionary fiscal stance, while supporting the fragile recovery.

12. **Given the ambitious reform agenda, the 2011 budget contains financing risks, which we plan to address through contingency measures.** We have already adopted several tax policy and administration measures and begun fighting corruption and tax evasion that should yield additional revenues of about 1 percent of GDP. Moreover, we plan to privatize KyrgyzTelecom through an open and competitive bidding process. We will carefully analyze revenue performance on a monthly basis and should additional tax revenues, privatization proceeds, and external financing not materialize, we will either compensate the shortfall through the sale of additional government shares of the mobile phone operator MegaCom or immediately submit to the parliament a supplementary budget proposing sequestration of nonpriority spending, while preserving expenditures on protected items. At the same time, we commit not to initiate any supplementary budget that may lead to an increase in total government spending beyond the amounts agreed with the IMF. We also commit to save 75 percent of the recent dividend payment received from Centerra Gold Inc. and any additional windfall receipts above the amounts envisaged in the approved budget.

13. **Our medium-term fiscal policy aims to bring the fiscal position back on a sustainable path.** To achieve this goal, we recognize that substantial fiscal consolidation from 2012 will be necessary. To this end, we will introduce additional revenue measures and restrain expenditures. Given that a large part of the domestic economy remains outside the tax system, our efforts will focus on broadening the tax base, which should help improve the efficiency of our tax system. Our measures will encourage formalization of the economy, limit tax evasion, spread the tax burden more evenly and simplify the tax system. The main element of our reform will be to improve the customs valuation system. In particular, we will move the majority of imported goods from weight-based to price-based valuation for raising revenues collected by customs (0.3 percent of GDP). We also plan to introduce additional measures by (i) reforming excise taxation on tobacco and alcohol in line with the draft tax code amendments (0.4 percent of GDP); (ii) removing the turnover tax exemption on electricity, heat and natural gas for commercial users (0.1 percent of GDP) and VAT exemptions on communication services (0.1 percent of GDP); and (iii) moving to a contract-based tax regime for food services (0.1 percent of GDP). These tax revenue measures, which in total will yield revenue of 1.0 percent of GDP, will become effective by January 1, 2012 (amendments to be submitted to Parliament by end-October, 2011, structural benchmarks). We also commit not to introduce new tax exemptions for the duration of the Fund-supported program.

14. **We will further bolster tax administration by strengthening the large taxpayers' office, deterring noncompliance through improved audits, and enhancing communication with, and assistance to, taxpayers (structural benchmark)**. Moreover,

we will exercise nominal wage restraint for public sector employees in 2012, reduce spending in other areas and generate additional fiscal savings through the civil service reform, which will result in at least 10 percent reduction of the civil service. We will begin to outsource part of government services to the private sector starting from 2012, which will result in a decline in revenues from fees and expenditures on services. The consolidation strategy will help to bring the fiscal deficit, excluding the Chinese-financed investment projects, from almost 8 percent of GDP in 2011 to 4.4 percent of GDP by 2014.

15. **Strong inclusive growth will aid in reducing poverty.** To ensure that the growth dividends from our reform efforts also benefit the poor, we plan to further develop our key targeted social assistance programs with the support of our development partners. Recently we modified the Unified Monthly Benefits (UMB), the central targeted assistance program, to introduce elements of a proxy means tested system. We plan to raise the size of the Guaranteed Minimum Income by almost 20 percent and increase spending on UMB and Monthly Social Benefit (MSB) to catch up with the rising cost of living. We plan to continue a gradual increase in spending on targeted social assistance programs and expand the coverage to nearly 0.5 million recipients (9 percent of the population) in the medium term.

16. **We believe that strengthening management of State-Owned Enterprises (SOEs) and Joint Stock companies (JSCs) with majority government equity participation will improve their efficiency, enhance the revenue base and minimize fiscal risks.** A recent study of their operations revealed shortcomings in their budget planning and accountability. The shortcomings stem from operational inefficiencies related to noncore expenditures. While external audits are mandatory for these companies, there is no procedure or mechanism in place to perform effective budget planning, analyze audit results, and take appropriate actions. We plan to develop a uniform procedure for budget planning and accountability to be used by these companies to increase their accountability. We will strengthen corporate governance principles. We will establish new reporting requirements for the 10 largest (in terms of assets) of these companies, which will include procedures to submit, approve, and monitor their budgets (structural benchmark). As these companies become more efficient, the budget will benefit from increased revenues from dividends. During the program period we will expand coverage to all SOEs and JSCs with majority government equity participation. Subsequently, we will prepare a transparent privatization plan with the assistance of our development partners.

17. **Additional structural reforms will aid the process of fiscal consolidation and put public finances on a stronger footing**. As a step towards further budgetary consolidation, we plan to integrate the social fund into the state budget framework by bringing its operations under the central treasury (envisaged under APES). At the same time, to strengthen the role of the Ministry of Finance as the key agency responsible for fiscal policy, we will consider returning the tax policy function to the Ministry of Finance.

18. **We also intend to advance public financial management (PFM) reform to increase the effectiveness of public spending.** The events of 2010 prevented us from focusing on implementing PFM reforms, particularly the recommendations provided by the IMF's Fiscal Affairs Department (FAD) technical assistance mission in December 2009. We have requested a follow-up mission to take a fresh look at PFM issues and update the recommendations. PFM reform measures would strengthen budget design and implementation and increasing transparency of budgetary operations. The donor trust fund will be instrumental in revitalizing PFM reforms.

19. **We are committed to maintaining debt sustainability.**

- In this regard, we will prepare a medium-term debt management strategy (MTDS) in consultation with the World Bank and IMF. We will also step up efforts to conduct our own debt sustainability analysis.

- We are actively working with the Russian authorities to find a resolution of the outstanding debt issue. We have already cleared arrears in the amount of US$14.4 million thereby removing a key impediment for the disbursement of budget support loan from the Eurasia Economic Community Anti Crisis Fund (ACF). We have also signed an agreement with the Belarusian government to settle debt obligations in the amount of US$207,649. We have contacted the governments of China and Korea to discuss and negotiate the settlement of technical arrears totaling approximately US$7.6 million.

- We are in discussions with China to borrow US$208 million for energy infrastructure investments. We may consider borrowing an additional US$240 million for related investments in a few years time. While the terms of these borrowings are not yet finalized, we will make every effort to ensure that the borrowing occurs on concessional terms. We are committed to contracting only external debt that is consistent with maintaining lower external debt vulnerabilities, i.e., maintaining or improving the moderate risk of external debt distress rating.

B. Monetary and Exchange Rate policies

20. **We are concerned with the recent inflation developments, largely driven by the food and fuel price shock.** Inflation has become widespread, encompassing a larger share of the basket and will likely be amplified by this year's fiscal expansion. But the recent inflation trends, which show core inflation stabilizing, are encouraging. We have already started to tighten monetary policy. In particular, we have raised the policy rate since October 2010 by almost 500 basis points, which has allowed us to substantially increase liquidity absorption through sales of NBKR notes. We also raised reserve requirements in February of this year by 1 percentage point. We anticipate that the combination of these policies will slow the growth of monetary aggregates and help to reduce inflation. Nonetheless, we stand ready to tighten further if inflation does not revert to a declining path in the second half of 2011. The

adverse impact on NBKR profits will not be a constraining factor on implementing monetary policy. To strengthen the effectiveness of monetary policy, we intend to work on deepening financial markets and increasing competition in the banking sector. We recognize that the best way to reduce high dollarization is to establish a track record of macroeconomic stability and to maintain exchange rate flexibility.

21. **The floating exchange rate system has served us well in mitigating the impact of external shocks without a sharp deterioration in the external position.** Exchange rate flexibility will help to maintain the real exchange rate in line with fundamentals. We will therefore intervene in the foreign exchange market only to smooth short-term exchange rate movements.

C. Financial Sector

22. **Political developments in 2010 tested our financial system, severely disrupted the regular course of supervisory activities, and undermined the NBKR's credibility.** Seven commercial banks, including the largest and systemically important one, AUB, were put under official control. The situation in five of these banks has not been fully resolved. As expected, the banking system's performance weakened and nonperforming loans increased. Some commercial banks experienced liquidity problems. However, there are signs of improvement.

23. **We have taken actions to isolate and resolve the problems in the banking system; but the process remains incomplete.** We will decisively deal with these legacy issues and ensure that the banking system is sufficiently resilient to withstand possible further shocks. We are taking the following steps:

- *Asset recovery*. The forensic audit of AUB revealed that the bank was insolvent ahead of the April events. It also suggests that shareholders and senior bank officials may have used the bank to engage in money-laundering activities. Based on these findings, we are actively working with the Basel Institute of Governance to determine whether any assets could be recovered.

- *Resolution of AUB/Zalkar*. We will complete the resolution of AUB/Zalkar in line with international best practices and as agreed with Fund staff. We will commission a financial audit to determine the financial position of Zalkar Bank, the new bank created from the AUB split (prior action). The audit will be conducted by a reputable big-four international accounting firm, and the results will be shared with IMF staff. Regardless of how these issues are resolved, the budget will bear the financial responsibility.

    - If the audit determines that the bank is solvent, it will be offered for sale, to a reputable bank, through a transparent and competitive privatization process (structural benchmark).

- If the privatization is not successful within the allotted timeframe, the assets and liabilities will be disposed of in a transparent and competitive tender process to interested investors within a reasonable time frame (structural benchmark).

- If the audit determines that the bank is insolvent, we will dispose of its assets and liabilities in a transparent and competitive tender process within a reasonable time frame (structural benchmark).

- *Resolution of banks currently under conservatorship*. We will continue to maintain the banks under conservatorship until they are fully compliant with the regulatory requirements or placed under liquidation.

- *Strengthen supervision, particularly of systemically important banks.* After an interruption due to the heavy volume of work on the problem banks, we have restored a regular cycle of supervisory inspections in a prioritized manner. In this context, we agree that SSC's rapid growth requires close monitoring and supervisory actions to contain its rate of growth and ensure its soundness. We will inject capital only to the extent necessary to allow the bank to extend loans to the entrepreneurs who suffered damages during June 2010 events. Going forward, we plan to privatize the bank and, in this context, will develop a strategy by end-April 2012.

We recognize that the NBKR should have sufficient financial resources to employ necessary staff and experts to tackle the difficult problems.

24. **We acknowledge the need to strengthen mechanisms to deter money laundering.** We will work towards enhancing interagency coordination between relevant government agencies by reestablishing the Interagency Commission for Combating the Financing of Terrorism and Legalization (laundering) of Proceeds from Crime, composed of the State Financial Intelligence Service, the NBKR, the National Security Service, the General Prosecutor's Office, the State Financial Market Supervision and Regulation Service and other relevant agencies, if any. The commission will meet on a regular basis and will prepare proposals on developing and implementing an AML/FT national strategy to strengthen the AML/CFT system and ensure interaction between government authorities on AML/CFT issues. The SFIS will streamline the financial analysis of the AML/CFT-related information it receives.

25. **We recognize that the Special Bank Refinancing Fund (SBRF), which was set up in 2009 by the NBKR to provide loans to commercial banks and micro finance institutions, should be phased out**. We will therefore announce the liquidation of the SBRF by issuing the relevant NBKR Board decision (prior action). Subsequently, we will transfer the loan portfolio to the NBKR and the government, in proportion to their funding

contributions (structural benchmark). We will not create any development/investment vehicle without prior consultation with IMF staff to ensure consistency with our program commitments.

26. **The recent experience with the banking sector revealed that the NBKR's supervisory independence had been compromised and that there are weaknesses in the legal framework for early intervention and resolution of problem banks.** Gaps, overlaps and inconsistencies in the banking laws render them difficult to interpret and apply, and may inadvertently hinder the protection of the interests of depositors and the maintenance of financial stability. We will submit to Parliament banking legislation to remedy these shortcomings as follows (structural benchmark):

- *Banking Code.* We will compile our banking laws into a Banking Code to ensure that only the Constitution and/or Constitutional Laws will supersede the banking laws.

- *Early Intervention and Bank Resolution.* The Banking Code will strengthen the existing powers of the NBKR with respect to the early intervention and resolution of problem banks, in line with international best practice and based on technical assistance from Fund staff. The Banking Code will provide for the appointment of an official administrator to a problem bank who will be empowered to use a range of restructuring tools, under the direction of the NBKR, such as recapitalization, purchase and assumption transactions and the establishment of a bridge bank, without preemptive rights of shareholders or creditors. In the event that a problem bank cannot be restructured as a going concern, the NBKR will be empowered to commence out-of-court liquidation proceedings against the bank.

- *The role of the judiciary*. The Banking Code will limit the scope of judicial review of actions taken by the NBKR to better align it with international best practice. This would entail limiting the courts' review of technical matters within the competence of the NBKR.

- *Rights of bank shareholders and creditors.* The Banking Code will ensure that the rights of bank shareholders and creditors are adequately protected and appropriately balanced against the public interest in depositor protection and financial stability. Shareholders and creditors will retain their rights to challenge the lawfulness of actions taken by the NBKR in court and to seek monetary damages.

- *Legal Protection for NBKR staff and agents.* The Banking Code will contain provisions that ensure that the NBKR, rather than its individual staff members or agents, is liable for actions taken by those individuals in the performance of their official duties.

D. Governance

27. **We fully recognize that our country's image has been damaged by the high level of perceived corruption, impeding the prospects of economic growth and sustainable development.** International agencies have been ranking the Kyrgyz Republic very low for

the last five years due to the widespread perception of corruption. Addressing this issue remains one of the biggest challenges for our government, but we are working hard to improve this image. Addressing governance issues will ensure the efficient use of public resources and improve the business climate, which will be instrumental to attract high-quality domestic and foreign investments in the country.

28. **Increasing transparency will play a pivotal role in reinforcing governance reforms.** Shortly after the new government came to power, we stepped up efforts to become an Extractive Industries Transparency Initiative (EITI) compliant county. While the formal launch of the EITI for The Kyrgyz Republic was announced in 2004, the process stalled. We undertook corrective actions in October 2010 and we were accepted by the EITI Board as a compliant country on March 1, 2011. Given the Kyrgyz Republic's natural resource endowment being an EITI compliant member demonstrates our commitment to enhance transparency.

29. **As part of the Fuel Energy Sector Transparency Initiative, we have requested USAID's Regional Energy Security, Efficiency and Trade project to undertake phase one management diagnostics of the main companies in the electricity sector of the Kyrgyz Republic.** The primary purpose of this appraisal is to identify ways to improve the governance and performance of each state-owned company and thus, establish the basis for the entire sector to become more efficient, self-sustaining and customer-oriented. The appraisal revealed many shortcomings in management practices of the companies, including weak control over procurement, exaggeration of reported technical losses, and lack of credible strategic planning. We will address these deficiencies in the course of phase two and three of the project, thus improving governance in energy sector crucial for the Kyrgyz economy. In addition, we hope to get World Bank support to improve energy sector transparency, accountability, and operational efficiency, and to enhance financial discipline through its planned Economic Recovery Support Operation.

30. Governance issues related to the financial activities and reporting procedures of the Kyrgyz Republic Development Fund (KRDF), currently undergoing liquidation, prevented the previous government from completing reviews under the program supported by the Exogenous Shocks Facility (ESF). We recognize the Fund's constructive role in helping to safeguard bilateral assistance received from Russia in 2009. We believe that there are still many unknowns in KRDF's operations. In line with our commitment under the RCF (see RCF MEFP, ¶17 (b)), we will select a reputable international auditing firm (big-four) to conduct a forensic audit of the KRDF from its inception through end-April 2011 (prior action). We will provide all the necessary information to the external auditor. Once finalized, we will publish the forensic audit report (structural benchmark). Mindful of the implications for the Fund-supported program, we will not create any other extra budgetary fund throughout the duration of the ECF arrangement and will ensure that all public finances are channeled through the budget.

31. **Despite the favorable rankings the Kyrgyz Republic enjoys in business climate indicators, the business community is very vocal about the problems encountered in their activities**. We are analyzing the reasons behind this in close consultation with representatives of the business community. Recognizing the importance of improving the business climate our APES envisages measures to reduce administrative burdens on taxpayers, strengthen property rights and, and streamline business registration and operations.

E. Other Structural Reforms

32. **The caretaker government partially reversed the large electricity tariff increase implemented by the previous government in January 2010 because of the heavy burden placed on socially vulnerable citizens.** This reversal has postponed much-needed reforms and worsened the financial condition of the energy sector. We will design energy sector reform with the objective to reduce losses in the sector, and increase its competitiveness and attract foreign investors, which should help to generate funding for its rehabilitation. The reform will be designed in close consultation with our development partners. We also intend to export summer surplus power to new markets.

33. **We have carefully weighed pros and cons of joining the Belarus-Kazakhstan-Russia Customs Union (CU).** We have submitted an application and plan to launch membership negotiations shortly**.** We have set up a working group headed by the ministry of economic regulation to conduct the negotiations. We will consult with the World Trade Organization during this process.

F. Safeguards Assessment

34. **We recognize the importance of completing an updated safeguards assessment of the NBKR by the first review under the ECF arrangement**. The NBKR has provided the IMF's Finance Department all the requested information, including the authorization to speak with its external auditor and stands ready to receive a safeguards mission, if needed. We are also committed to implement recommendations emerging from the safeguards assessment and include priority ones in future measures under the Fund-supported program. We also agree to update the February 6, 2010 memorandum of understanding between the ministry of finance and the NKBR on the management of foreign exchange reserves, including those for budgetary support.

IV. Program Monitoring

35. **The Fund-supported program will be monitored through prior actions, quantitative performance criteria, indicative targets, and structural benchmarks.** Prior actions and structural benchmarks are set out in Table 1; the quantitative targets (performance criteria and indicative targets) for end-June 2011, end-September 2011, end-December 2011, end-March 2012, and end-June 2012 and continuous performance

criteria, are set out in Table 2. The reviews will be conducted semi-annually based on end-June and end-December test dates. The first and second reviews will be expected to take place by November 30, 2011 and April 16, 2012, respectively. The understandings between the Kyrgyz authorities and IMF staff regarding the quantitative performance criteria and the relevant structural measures described in this memorandum and reporting requirements are further specified in the technical memorandum of understanding (TMU) attached to this memorandum.

Table 1. Kyrgyz Republic: Prior Actions and Structural Benchmarks under the Extended Credit Facility for 2011 and 2012

Measure	Timing	Macroeconomic rationale
Prior Actions		
Select a reputable international auditing firm (big-four) to conduct a forensic audit of the Kyrgyz Republic Development Fund (KRDF).		Strengthen transparency of public finances.
Select a reputable international auditing firm (big-four) to conduct a financial audit of the opening and end-April 2011 balance sheets of Zalkar Bank.		Expedite a complete and transparent resolution of the AUB/Zalkar.
Announce the liquidation of the SBRF by issuing the relevant NBKR Board decision.		Remove distortions in the central bank operations.
Structural Benchmarks		
I. FISCAL POLICY		
Submit to Parliament amendments to the tax and customs codes and issue relevant government resolutions to raise additional revenues by:	**End-October, 2011**	**Revenue measures are critical to achieve medium-term fiscal consolidation without sizable downward adjustments of expenditures.**
(a) Improving the customs valuation system and moving the majority of imported goods from weight-based to price-based valuation.		Introduce best international practices in customs valuation of imported goods.
(b) Removing the turnover tax exemption on electricity, heat and natural gas for commercial users.		Raise revenues in an easy to administer way.
(c) Removing VAT exemptions on communication (internet and roaming) services.		Broaden the tax base.
(d) Reforming excise taxation on tobacco and alcohol in line with the draft tax code amendments.		Raise revenues in an easy to administer way.
(e) Moving to a contract-based tax regime for food services.		Strengthen enforcement of the tax legislation.
Strengthen tax administration by:	**End-September, 2011**	**Tax policy measures alone will be insufficient to generate additional revenues in support of fiscal consolidation.**
a) Strengthening the large taxpayers office (LTO) by: (i) reviewing the current criteria for identifying large taxpayers and modifying, if necessary; (ii) expanding the LTO coverage of the large taxpayers to achieve at least 60 percent of the number of taxpayers meeting the established criteria; (iii) ensuring that LTO participation is mandatory; (iv) reviewing organization charts and making changes, if necessary.		Raising revenues from large taxpayers is fundamental to sound revenue administration.
(b) Deterring non-compliance through improved audits by introducing best practices in the taxpayer audits by: (i) completing the first phase of computer-based risk scoring system; (ii) measuring and closely monitoring audit performance.		Increase the quality of taxpayer audits.
(c) Enhancing communication with taxpayers, staff and other stakeholders by: (i) publicizing information for the taxpayers on the existing guidance and assistance on tax issues available at the tax offices; (ii) regular briefings of industry associations, tax accountants and other third parties; (iii) preparing quarterly reports to the public about the communication activities.		Increase transparency of tax administration.
Adopt a government resolution on the procedures for submission of budgets of the 10 largest SOEs to be approved and monitored by the government.	End-October, 2011	Reduce fiscal risks stemming form state-owned enterprises and boost revenues from dividends.
Develop and adopt a medium-term debt management strategy.	End-March, 2012	Strengthen macroeconomic management and ensure debt sustainability.
Publish the external audit report on the KRDF.	End-September, 2011*	Strengthen transparency of public finances.
II. FINANCIAL SECTOR		
Refund in the process of liquidation the portions of the SBRF financed by the NBKR and the government, respectively.	End-October, 2011	Remove distortions in the central bank operations.
Based on the audit results, resolve Zalkar Bank as follows:		Complete resolution of the AUB/Zalkar.
1) If the bank is solvent, then:		
a) sell to a reputable bank, or	End-February, 2012	
b) if no acquirer is found, initiate disposal of assets and liabilities to interested investors.	End-February, 2012	
2) If the bank is insolvent, then initiate closure and liquidation.	End-September, 2011	
Submit to the Parliament a draft Banking Code (including Law on Banks and Banking Activity, Law on Conservatorship, Liquidation, and Bankruptcy of Banks, Law on NBKR) consistent with Fund TA advice, to (i) strengthen the legal framework for early intervention and resolution of problem banks; (ii) limit the scope of judicial review of actions taken by the NBKR; (iii) enhance legal protection for NBKR staff and agents.	End-April, 2012	Strengthen bank resolution framework and supervisory independence of the NBKR.
Develop a sales strategy for the SSC bank.	End-April, 2012	Reduce the government's involvement in the commercial banking activity.

* For compliance monitoring purposes, delays directly caused by the audit company will be acknowledged.

Table 2. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets under the Extended Credit Facility (In millions of soms, unless otherwise indicated; eop)

	2010	2011			2012	
	December	June	September	December	March	June
	Actual	QPC	Indicative Targets	QPC	Indicative Targets	Indicative Targets
Quantitative performance criteria 1/						
1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars)	1,526	1,586	1,612	1,617	1,637	1,657
2. Ceiling on net domestic assets of the NBKR (eop stock)	-14,933	-16,016	-15,189	-11,327	-11,681	-10,761
3. Ceiling on cumulative overall cash deficit of the general government	13,792	3,652	12,698	19,111	-1,108	7,188
4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 2/	0	450	450	450	450	450
5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	0	0	0
Indicative Targets 1/						
1. Ceiling on reserve money	48,597	50,390	52,464	56,571	57,155	59,014
2. Cumulative floor on state government tax collections	39,363	22,607	35,332	49,119	15,299	31,789
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit (UMB) and Monthly Social Benefit (MSB) programs	2,303	1,255	2,027	2,800	772	1,544

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

1/ As defined in the TMU.

2/ External debt contracted or guaranteed with a grant element less than 35 percent. The limit is cumulative from end-December 2010 and tied to energy infrastructure projects only. Should the total borrowings for these projects be less than US$450 million, the remaining space cannot be used to borrow for other projects. While exact terms are still under negotiation, the grant element on these loans is expected to be slightly less than 35 percent, but will not be lower than 30 percent.

APPENDIX III. KYRGYZ REPUBLIC: TECHNICAL MEMORANDUM OF UNDERSTANDING

June 2, 2011

I. INTRODUCTION

1. This memorandum defines the quantitative performance criteria, indicative targets and adjustors, and establishes the content and frequency of the data to be provided to IMF staff for program monitoring related to the economic program supported by an arrangement under the Extended Credit Facility (ECF). The indicators presented in Table 2 of the Memorandum of Economic and Financial Policies dated June 2, 2011 reflect the understandings on quantitative performance criteria reached between the authorities of the Kyrgyz Republic and staff of the IMF.

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Definitions and concepts

2. **Test dates.** Quantitative performance criteria are set semi-annually starting June 30, 2011 through June 30, 2012, and are to be met at the end of each period.

3. **National Bank of the Kyrgyz Republic (NBKR).** The NBKR is the central bank of the country and is responsible for the formulation and implementation of monetary policy, bank supervision, and the payment system. For the purpose of the program, the NBKR includes all its central and regional offices.

4. **Public sector.** For the purpose of the program, the public sector comprises the general government, the NBKR, and 10 largest nonfinancial public enterprises (enterprises and agencies in which the government owns more than 50 percent of the shares, but which are not consolidated in the budget, as listed in Table 1). The State budget comprises central and local government budgets. The general government budget includes the State, Social Fund and the Development Fund (hereinafter, KRDF) budgets.[1]

5. **Foreign-financed Public Investment Program (PIP) loans and grants.** The foreign financed PIP is a program of investments in infrastructure and social sectors agreed by the general government of the Kyrgyz Republic and its donors (including but not limited to international financial organizations). The PIP is fully financed by related grants and loans.

6. **Program loans and grants** are loans and grants received by the general government for direct budget support from external donors and not related to PIP financing.

[1] KRDF will be included for the duration of its existence.

7. The stock of **external payment arrears** for program monitoring purposes is defined as the end-of-period amount of external debt service due and not paid within the grace period specified in the relevant debt contract, including contractual and late interest. For arrears to exist, a creditor must claim payment of amounts due and not paid. Amounts in dispute are not considered arrears. Arrears for which a clearance framework/rescheduling or restructuring has been agreed with the creditor are not considered arrears for program monitoring purposes. Program arrears would include any debt service due under such agreements that has not been paid.

8. **Concessional and nonconcessional debt.** Concessional debt is defined as debt with a grant element equivalent of 35 percent or more. The grant element of a debt is the difference between the present value (PV) of the 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 debt refers also to commitments contracted or guaranteed and for which value has not been received. 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. The calculation is performed by the authorities and verified by the IMF staff based on the data provided by the authorities.

9. **Valuation changes (program exchange rates).** For program monitoring, U.S. dollar-denominated components of the NBKR's balance sheets will be valued at the program exchange rates. The program exchange rate of the KGS to the U.S. dollar is set at the end-2010 exchange rate of KGS 47.0992 = US$1. The corresponding cross exchange rates and program gold price for the duration of the program are provided in Table 2.

B. Quantitative performance criteria

Floor on net international reserves of the NBKR in convertible currencies[2]

Definitions

10. **Net international reserves (NIR) of the NBKR.** The floor on NIR will be calculated as the difference between total international reserve assets and total international reserve liabilities of the NBKR in convertible currencies. 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 reserve assets and liabilities, correspondingly. Reserve assets pledged as collateral or otherwise encumbered, capital subscriptions in foreign financial institutions, and 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. NIR is not affected when foreign assets are received by the NBKR through foreign currency swaps with resident financial institutions. Total international reserves and NIR decline with the provision of foreign assets by the NBKR through foreign currency swaps with resident financial institutions.[3] For program monitoring purposes, total international reserve assets and liabilities will be valued at the program exchange rates as described in paragraph 9 above. Thus calculated, the stock of net international reserves in convertible currencies amounted to US$1,526 million on December 31, 2010.

11. **Net foreign assets (NFA) of the NBKR.** NFA 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, capital subscriptions in foreign financial institutions, and illiquid

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

[3] 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.

assets. For program monitoring purposes, other NFA will also be valued at program exchange rates. Thus defined, other NFA is projected to amount to minus KGS 8280 million at end-June, end-September, and end-December 2011.

Adjustors

12. The floor on NIR will be adjusted upward/downward to the full extent of any excess/shortfall in program grants and program loans, as given in Table 3 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 3.

Ceiling on the net domestic assets of the NBKR

Definitions

13. **Net domestic assets** of the NBKR (NDA) are defined as reserve money of the NBKR (defined below), minus NFA as defined above. Items in foreign currencies will be valued at program exchange rates.

14. Thus defined, NDA consist of: (a) gross credit to the general government from the NBKR, minus deposits of the general government with the NBKR; (b) gross credit to domestic banks by the NBKR; c) net claims on other financial corporations and (d) all other net assets of the NBKR (other items net). Thus defined, the stock of NDA amounted to minus KGS 14,933 million on December 31, 2010.

Adjustors

15. The ceiling on NDA will be adjusted downward/upward to the full extent of any excess/shortfall in program grants and program loans, as given in Table 3 and downward/upward 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 3.

Ceiling on the cumulative overall cash deficit of the general government

Definitions

16. **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. 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: bank loans to the general government; 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 overdrafts on the current accounts of the general government with banks;

b) the change in the stock of net claims of foreign governments, banking systems, 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; and

e) net foreign loans disbursed to the general government for PIP financing.

The quantitative performance criteria for the fiscal balance are calculated on the projected exchange rate. Reporting and adjustments, as defined above, will be made using current exchange rates.

Adjustors

17. The ceiling on the cumulative overall cash deficit of the general government will be adjusted downward to the full extent of any excess in program grants, as given in Table 3. The ceiling on the cumulative overall cash deficit of the general government will be adjusted downward to the full extent of any shortfall in program loans, as given in Table 3 and upward/downward to the full extent that PIP loans are more/less than PIP loans given in Table 3.

Ceiling on contracting or guaranteeing of new nonconcessional external debt by the public sector (continuous quantitative performance criteria)

Definitions

18. **Debt.** In connection with the contracting or guaranteeing of short-, medium-, and long-term external debt by any entity of the public sector, for program purposes, the definition of debt is set out in Executive Board Decision No. 6230–(79/140, Point 9, as revised on August 31, 2009 (Decision No. 14416–(09/91)) and 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 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);

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 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.

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.

For program purposes, external debt is defined based on the residency of the creditor.

19. **External debt ceilings** apply to the contracting or guaranteeing by the public sector (as defined in section II. A., paragraph 4) of nonconcessional external debt, i.e. external debt with grant element of less than 35 percent (see section II. A., paragraph 7), except normal short-term import-related credits and NBKR international reserve liabilities. The current nonzero ceiling (US$450 million) is tied to infrastructure projects in the energy sector. Should the total borrowings for these projects be less than US$450 million, the remaining space cannot be used to borrow for other projects. The grant element on these loans is expected to be slightly less than 35 percent but will not be lower than 30 percent.

20. **Exclusions from the external debt limits.** Disbursements by the IMF are excluded from the ceilings on external debt. Also excluded from external debt ceilings is the contracting or guaranteeing of new external debt that constitutes a rescheduling or refinancing of existing external debt on the terms more favorable to the debtor.

21. **Guarantees.** For program purposes, the guarantee of a debt arises from any explicit legal obligation of the public sector 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 public sector to finance partially or in full a shortfall incurred by the debtor.

22. **New external payments arrears.** Ceiling on accumulation of **new external payments arrears** is a continuous quantitative performance criterion.

C. Indicative targets

Ceiling on reserve money

23. **Reserve money** is defined as the NBKR's national currency liabilities to the economy, which includes currency issued and liabilities to other depositary corporations.

Cumulative floor on state government tax collections

24. **Tax collections** in cash correspond to the line "Tax Receipts" in the Treasury Report and comprise the following categories: tax on income and profits; taxes on goods and services; specific taxes on services; turnover taxes; taxes on property; taxes on international trade; and other taxes. Tax collections include collections of tax arrears but exclude tax offsets.

Cumulative floor on state government spending on targeted social assistance

25. **Targeted social assistance spending** comprises state government spending on Unified Monthly Benefit (UMB) and Monthly Social Benefit (MSB) programs.

III. Reporting Requirements under the Arrangement

26. The government and the NBKR will provide the IMF with the necessary economic and financial statistical data to monitor economic developments and the quantitative targets (Table 4). In particular, the government and the NBKR will provide the following specific information.[4]

A. The balance sheet of the NBKR

27. The NBKR will provide to the IMF its analytical 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

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

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; net claims to other financial corporations; 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

28. 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 16 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, net claims to the rest of the economy, other items net, and broad money. The monetary survey will be provided using both program and actual exchange rates.

29. 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

30. The NBKR will provide detailed monthly data within 20 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; and 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 twenty-fifth 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.

D. External debt

31. 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, nonfinancial 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

32. 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

33. 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

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

Table 1. Kyrgyz Republic: Ten largest SOEs

	Name of SOE
1.	JSC KyrgyzAltyn
2.	JSC KyrgyzNefteGaz
3.	JSC "Electrical Stations"
4.	JSC "National Electrical Grid of Kyrgyzstan"
5.	JSC "Manas International Airport"
6.	JSC KyrgyzTelecom
7.	JSC SeverElectro
8.	SOE "National Company Kyrgyz Temir Jolu"
9.	JSC KyrgyzGaz
10.	JSC BishkekTeploset

Table 2. Kyrgyz Republic: Program Cross Exchange Rates and Gold Price

Abbreviation	Currency Name	Currency/US$	US$/Currency
AUD	Australian Dollar	0.9971	1.0029
CAD	Canadian Dollar	1.0098	0.9903
CNY	Chinese Yuan	6.6387	0.1506
JPY	Japanese Yen	83.0287	0.0120
KZT	Kazakh Tenge	147.4129	0.0068
KGS	Kyrgyz Som		47.0992
LVL	Latvian Lat	0.5406	1.8500
MYR	Malaysian ringgit	3.1012	0.3225
RUB	Russian Ruble	30.6345	0.0326
CHF	Swiss Franc	0.9635	1.0379
GBP	UK Pound Sterling	0.6487	1.5416
TRY	New Turkish Lira	1.5499	0.6452
SDR	SDR	0.6551	1.5266
BYR	Belarusian Ruble	3011.5757	0.0003
EUR	Euro	0.7622	1.3120
UAH	Ukrainian Hryvnia	7.9783	0.1253
XAU	Gold ($/troy ounce)	1405.5000	…

Table 3. Kyrgyz Republic: Projected Budget Support, PIP, and Amortization
(In millions of U.S. dollars)

	2011 1/		
	June	September	December
Program grants	43.8	66.9	115.2
Program loans	17.1	123.8	140.3
PIP loans	69.7	126.0	143.5
Amortization of public external debt	23.2	28.7	43.2
Interest payments	26.2	41.3	46.5

1/ Cumulative disbursements since the beginning of the year

Table 4. Kyrgyz Republic: Reporting Requirements/Frequency under the Arrangement

Reporting Agency	Data	Frequency	Timing
NBKR	Analytical balance sheet of NBKR	Daily	The following working day
NBKR	Monetary surveys of the banking sector and other depository corporations	Monthly	Within 16 days of the end of each month
NBKR	The amount of holdings of treasury bills, treasury bonds and other securities issued by the state government	Monthly	Within 7 days of the end of each month
NBKR	The composition of both its gross and net international reserves in convertible currencies and holdings of monetary gold Net foreign financing flows	Monthly	Within 20 days of the end of each month
NBKR	Nominal exchange rates Foreign exchange interbank market turnover Volume of NBKR foreign exchange sales and purchases in the domestic interbank market and with other parties, on a daily basis; Treasury bill yields and the amount of treasury bill sales and redemptions	Weekly	The following working day
NBKR	Indicators of financial soundness of the banking system	Monthly	Within 25 days of the end of each month
MOF NBKR	Disbursements, principal and interest payment (external debt) Contracting and guaranteeing of medium- and long-term external loans Any stock of outstanding arrears on external debt service payments Total amount of outstanding government guarantees and external arrears	Monthly	Within 21 days of the end of each month
Social Fund	Social Fund operations report	Monthly	Within 26 days of the end of each month
MOF	Disbursements and use under the public investment program and budgetary grants	Monthly	Within 30 days of the end of each month
NBKR	Current account and capital account data	Quarterly	Within 90 days of the end of each quarter
NBKR	Foreign trade data	Monthly	Within 30 days of the end of each month
NSC	Consumer Price Index by category	Monthly	Within 15 days of the end of each month
NSC	GDP	Monthly	Within 30 days of the end of each month