International Monetary Fund

Kyrgyz Republic and the IMF

Press Release:
IMF Completes Second Review Under an ECF Arrangement with the Kyrgyz Republic, Approves US$14.7 Million Disbursement
April 27, 2012

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Kyrgyz Republic: Letter of Intent, and Technical Memorandum of Understanding

April 12, 2012

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ATTACHMENT I. LETTER OF INTENT

April 12, 2012

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th street, N.W.
Washington, DC, 20431
USA

Dear Ms. Lagarde:

The first review of our economic and financial program, supported by an arrangement under the Extended Credit Facility (ECF), was completed by the IMF Executive Board on December 7, 2011. We are grateful to the IMF for its continued support of our economic reform program.

The ECF continues to play a pivotal role in our efforts to restore and maintain macroeconomic stability and promote inclusive growth in a low inflation environment after the deep political crisis in 2010. Its successful implementation is also instrumental in helping to catalyze donor assistance to fulfill our social commitments and to continue implementation of much-needed structural reforms. Peaceful presidential elections and the formation of a new coalition government in December 2011 have set the stage for continued political stability and strengthened security, enabling us to accelerate our economic reforms.

The economy has rebounded strongly, growing by 5.7 percent in 2011. Growth was broad-based and supported by political stability, improved security and buoyant activity in major economic partners. Consumer price inflation has declined rapidly to 5.7 percent at end-2011 compared to over 22 percent at end-June 2011.

The program remains on track. All end-December 2011 quantitative performance criteria and the majority of the applicable structural benchmarks were met. Structural reforms are being implemented in line with our commitments in the Letter of Intent (LOI) and the Memorandum of Economic and Financial Policies (MEFP) dated June 2, 2011 and the LOI dated November 17, 2011. We have established a high-level committee for coordination of Public Financial Management (PFM) reforms chaired by the minister of finance, which meets on a regular basis. A decree to extend treasury coverage to the remaining extra-budgetary funds, including the Social Fund, was adopted. We have also developed and adopted a medium-term debt management strategy, which will strengthen macroeconomic management and safeguard debt-sustainability. We have developed a sales strategy for the Savings and Settlement Company (SSC) bank. Regrettably, our efforts to sell Zalkar Bank through four competitive auctions did not succeed. We strongly believe that the sale of Zalkar as a whole would be more efficient than a piecemeal liquidation and therefore we ask that this benchmark be replaced with two new benchmarks that will increase the chances of successful privatization of Zalkar. We have also taken decisive steps toward strengthening the legal frameworks for banking supervision, bank resolution, microfinance, central banking, and payments systems oversight. A first draft of the Banking Code has been completed, but to successfully finalize the Banking Code more time and further international assistance is needed. We therefore ask to delay this structural benchmark to end-March 2013.

In view of our achievements and continued commitment to the program, we are requesting the completion of the second review under the ECF-supported program and the third disbursement in the amount of SDR 9.514 million (about US$15 million). We also request that the third and fourth disbursements under the ECF arrangement be channeled to the budget. Furthermore, we request the modification of end-June 2012 performance criteria to reflect the changed macroeconomic outlook, lower external financing and higher-than-expected project costs of the foreign-financed energy infrastructure project. The government believes that the economic and financial policies set forth in our LOI and MEFP of June 2, 2011, LOI of November 17, 2011, supplemented with this LOI and modified quantitative performance criteria and updated structural benchmarks (see Tables 1 and 2, respectively) are sufficient to meet the objectives of the program. We stand ready to take additional measures as needed and will consult with Fund staff on such measures and in advance of revisions to the policies contained in the MEFP, November 17, 2011 LOI and updated LOI, in accordance with the Fund's policies.

Consistent with our commitment to transparency, we agree to publish this letter and other ECF-related documents circulated to the IMF Executive Board on the IMF web site.

I. Policies for 2012 and Beyond

1. **The policies and commitments set out in the LOI and MEFP dated June 2, 2011 and the LOI of November 17, 2011, remain valid and are updated with this LOI.**

2. **Continued macroeconomic stability remains the cornerstone of our Fund-supported program.** In particular:

- Projecting economic growth in the present highly uncertain environment is difficult. We are aiming at real GDP growth of 7.5 percent in 2012 but maintain the conservative assumption for the purpose of the program of 5 percent and 5½ percent on average during 2013–14.

- Continuation of tight monetary policy should help to keep underlying inflationary pressures contained. Barring exogenous price shocks, headline inflation is projected at 8–8½ percent in 2012 and about 7–7½ percent during 2013–14.The general government fiscal deficit, excluding foreign-financed energy investment projects, will increase slightly to 4.6 percent of GDP. In line with the program objective of fiscal consolidation it will decline to 2.6 percent of GDP by 2014.

- The current account deficit is expected to widen from 3.1 percent of GDP in 2011 to 4.8 percent in 2012 due to the slowdown in growth of nongold exports and remittances, while continued high oil prices and purchases of equipment related to the energy infrastructure project and investments by the major gold-mining company are expected to keep imports high.

3. **We have finalized the Medium Term Development Program (MTDP/PRSP) with the assistance of our development partners.** In line with our commitments (see the LOI of November 17, 2011 ¶3) the strategy will be circulated to the Fund's Executive Board with the documents for the second review under the program. The main goal of the reforms under the MTDP/PRSP is to improve the population's living standards and reduce poverty through economic growth, improvements in the business environment, and building an effective governance system. The MTDP/PRSP is consistent with our ECF-supported program commitments, including (i) fiscal consolidation, (ii) strengthening public financial management, (iii) safeguarding debt sustainability, and (iv) improving the business environment.

A. Fiscal policy

4. **Medium-term fiscal consolidation remains a critical element of our program while preserving priority social expenditures.**

- Tax policy and administration measures introduced in 2011 and 2012 and continued improvements in compliance will help increase tax revenue collection by about 1 percent of GDP. Moreover, the new reporting requirements for the ten largest state-owned enterprises (SOEs) adopted under the program have helped to better assess the financial condition of these SOEs and are expected to considerably increase dividend receipts in the budget (by about 40 percent).

- We will ensure that any tax policy initiative that leads to lower tax rates or a narrower tax base is accompanied by offsetting revenue measures. We plan to return the tax policy function to the ministry of finance.

- In line with our commitment (see MEFP ¶13) we will exercise nominal wage restraint for public sector employees in 2012. We have started to reduce the size of civil service by about 15 percent in 2012, which will free up about 0.3 percent of GDP of budgetary resources. In addition to the legally required severance payments, we will develop a program of retraining and employment for civil servants to mitigate the adverse social impact of the downsizing. Furthermore, about 700 service vehicles will be sold through auctions and the proceeds transferred to the budget.

- We plan to raise pensions further in two steps by a cumulative 16 percent to bring the average pension closer to the minimum subsistence level. The full year impact from the pension and wage increases introduced in mid-2011 will lead to higher social fund and payroll spending, while critical developmental needs, including the ongoing energy infrastructure project, will increase capital expenditures.

- As a result, the overall 2012 fiscal balance, excluding energy infrastructure projects, is projected at 4.6 percent of GDP. This deficit target is higher than the 2011 outcome, but lower than the original target under the program and is thereby in line with our goal of medium-term fiscal consolidation.

5. **We plan to address any shortfalls in revenues or financing with contingency measures.** If needed, we will cut nonpriority spending while preserving outlays on protected items such as pensions and salaries. We will not include financing from the Eurasian Economic Council (EURASEC) Anti Crisis Fund (ACF) (US$106.7 million, 1.8 percent of GDP) in our financing plans this year because of continued uncertainties. Should ACF financing become available, we commit to limit the increase in the deficit to no more than 0.5 percent of GDP (30 percent of the disbursed amount) this year.

6. **We intend to further develop the domestic debt market to diversify financing.** We acknowledge that transforming the government securities market into a deep and liquid market will take time. We will therefore prepare and adopt a domestic debt market development action plan, although more technical assistance may be needed. Meanwhile, to improve primary placement arrangements and broaden participation we plan to pilot the issuance of three-month treasury bills and two-year bonds at the Kyrgyz Stock Exchange. We will discontinue direct sales of government securities by the Ministry of Finance and ensure that the sales take place only at organized auctions. To ensure transparency and accountability, we will exclusively use the unified depository for government securities at the NBKR.

7. **We recognize the need to advance the PFM reform agenda.** Consistent with our commitment (see the LOI dated November 17, 2011, ¶7), we asked our development partners to carry out a review of our public procurement system to identify and recommend actions to strengthen it. With the help from the World Bank and Asian Development Bank we are implementing a program to revamp public procurement system, which we expect to generate considerable fiscal savings. We will also implement PFM reforms in line with the Fund technical assistance (structural benchmark) recommendations and the assistance from the PFM donor trust fund.

8. **Implementation of foreign-financed energy infrastructure projects is critical to ensure the country's energy security.** To accommodate an increase in the projects' estimated costs as a result of higher input prices and the addition of new transformers, we are requesting an increase in the ceiling on the contracting or guaranteeing of new

nonconcessional external debt by US$150 million. We consider this a precaution and will make every effort to ensure that the financing of these projects is contracted on concessional terms, as the first phase of the project, and are committed to maintaining lower external debt vulnerabilities.

B. Monetary, exchange rate, and financial sector policies

9. **The primary objective of monetary policy in 2012 will be to keep inflation in single digits.** The NBKR will maintain a tight monetary policy stance to further counter underlying inflationary pressures. We will continue to rely on open market operations to manage liquidity and maintain a positive real policy interest rate. We will ensure close coordination between the fiscal and monetary authorities and continue to intervene in the foreign exchange market only to smooth excessive volatility. Expected technical assistance from the Fund should help to strengthen the NBKR foreign exchange reserves management capacity.

10. **We will continue to strengthen banking supervision and reduce existing vulnerabilities.**

- The NBKR has recently reorganized the banking supervision function to improve its overall effectiveness. On-site and off-site divisions that have expanded considerably over the past several years were elevated to departments. The NBKR is benefiting from ongoing IMF technical assistance in banking supervision.

- The NBKR will continue to closely monitor the systemically important state-owned SSC bank to ensure that its pace of expansion remains measured so as not to jeopardize its soundness. The capital injection by the government last year allowed the bank to sustain government supported programs and we may provide an additional 250 million soms for the same purpose. The government has prepared a sales strategy for SSC (end-April 2012 structural benchmark).

- The NBKR's work to resolve the four banks under conservatorship is ongoing. One bank is expected to be removed from conservatorship by the end of this year. Progress in resolving the remaining banks continues to be limited due to pending litigation cases. A resolution of the assets nationalized in the aftermath of the 2010 events that were taken as collateral for loans extended by domestic banks would greatly help in this regard.

- The work on the draft Banking Code provides an opportunity to comprehensively review the legal frameworks for banking supervision, bank resolution, microfinance, central banking, and payments systems oversight and align them with international best practice. Given the scope of the project, more time is needed for the NBKR to prepare a draft for Fund staff (end-April 2012, structural benchmark), for the government (end-December 2012, structural benchmark), and for the government to submit the draft to parliament (end-March 2013). The IMF resident legal advisor for the NBKR will be instrumental in this regard.

11. **Our attempts to privatize Zalkar bank were not successful.** The Agency on Banks Reorganization and Debt Restructuring (DEBRA) did not receive any bids at four auctions that took place between November 2011 and January 2012. While the next step of the resolution plan agreed with the IMF stipulates the disposal of assets and liabilities of the bank, we believe that selling the bank as a going concern is a better option. To improve the process we have asked the World Bank to assist us in selling the bank. The World Bank's international experience in this area should considerably enhance our chances to sell Zalkar to a reputable bank through a transparent and competitive process. To this end, DEBRA has signed an agreement with the IFC as the external transaction advisor. By end-June 2012, the valuation of Zalkar bank will be completed and we will disseminate the prospectus with the help of our transaction advisor (structural benchmark). We expect the sale to be completed by end-December 2012 (structural benchmark).

12. **We are preparing an action plan to strengthen the AML/CFT regime with Fund assistance.** While the plan will encompass eight different areas, the Fund's TA will focus on reviewing the legal framework and assisting the State Financial Intelligence Service (SFIS) and other relevant agencies in reinforcing their functions and coordination. In line with Fund advice, we will submit to the parliament draft amendments to the AML/CFT law and to the relevant provisions of the Criminal Code to strengthen the AML/CFT legal framework. These provisions include the criminalization of money laundering and terrorist financing; identification, tracing, and freezing of terrorist assets; confiscation of funds related to money laundering; and customer due diligence measures for all financial institutions by end-September 2012 (structural benchmark).

C. Structural policies

13. **The government attaches a high priority to establishing a business environment conducive to investment and private sector-led growth.** To reduce the burden on businesses, the quantity of licenses and permits has been reduced from 500 to 220 and the number of government entities with the authority to inspect businesses have been cut from 12 to 2. We have established the state service on fighting economic crimes and disbanded the financial police with the aim to concentrate the function of investigation of economic crimes in one body. We will eliminate duplication of inspections by state executive bodies and local governments, including regional state administrations. We have also analyzed the legislation and regulations governing private property and will take the necessary steps to strengthen protection of property rights. To address the growing complaints of investors in the mining sector, we will adopt a new law on mineral resources in cooperation with our development partners to ensure openness and transparency in the mining sector.

14. **We remain strongly committed to reform the public administration system and reduce bureaucracy.** The revamped government structure that entered into force in January 2012 reduced the number of ministries from 18 to 16 and the number of other government agencies from 22 to 19. The number of government services has been reduced significantly, which should improve the quality and efficiency of these services.

15. **We remain committed to good governance and transparency.** We are advancing our work to establish a State Development Bank (SDB) to support future growth including by developing affordable (i) mortgage lending; (ii) leasing for agriculture; and (iii) loans for farmers and entrepreneurs. In line with the LOI dated November 17, 2011 (¶9), we have been consulting with IMF staff and other development partners and will continue to do so over the coming months to ensure that the adopted law is in line with program objectives. We will also ensure that internal rules and regulations governing the SDB guarantee sound governance, transparency, and accountability of this financial institution and will consult with Fund staff and other development partners prior to approval of these documents. It is critical that all public resources channeled to the SDB are reflected in the budget.

D. Program Monitoring

16. **The ECF-supported program will continue to be monitored through quantitative performance criteria, indicative targets, and structural benchmarks.** Quantitative performance criteria and indicative targets for March 2012, June 2012, September 2012, December 2012, March 2013, and June 2013 and continuous performance criteria are set out in Table 1 and structural benchmarks are set out in Table 2. Program reviews will continue to be conducted semi-annually, based on end-June and end-December test dates. The third and fourth reviews are expected to take place on or after November 15, 2012, and on or after April 15, 2013, respectively. The understandings between the Kyrgyz authorities and IMF staff regarding the quantitative performance criteria and structural benchmarks described in this LOI and reporting requirements are further specified in the Technical Memorandum of Understanding (TMU) as updated in the attached.

Sincerely yours,

/s/
Omurbek Babanov
Prime Minister of the Kyrgyz Republic

/s/	/s/
Akylbek Japarov	Zina Asankojoeva
Minister of Finance of	Chairperson of the National Bank of
the Kyrgyz Republic	the Kyrgyz Republic

Table 1. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, December 2011–June 2013
(In millions of soms, unless otherwise indicated; eop)

	2011				2012					2013	
	December				March	June		September	December	March	June
	QPC				IT	QPC		IT	QPC	IT	IT
	CR/11/354	Adj.	Act.	Status	CR/11/354	CR/11/354	Revised				
Quantitative performance criteria 1/											
1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars)	1,694	1,586	1,638	Met	1,633	1,678	1,635	1,678	1,742	1,722	1,752
2. Ceiling on net domestic assets of the NBKR (eop stock)	-12,384	-7,303	-14,080	Met	-11,868	-10,310	-10,368	-10,491	-9,325	-17,934	-15,415
3. Ceiling on cumulative overall cash deficit of the general government 2/	21,588	16,754	13,117	Met	477	6,502	7,213	12,703	18,145	1,320	7,551
4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/	250	250	0	Met	250	250	400	400	400	400	400
5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	Met	0	0	0	0	0	0	0
Indicative Targets 1/											
1. Ceiling on reserve money	59,116	59,116	54,803	Met	56,772	60,453	58,339	60,222	64,406	63,159	67,090
2. Cumulative floor on state government tax collections 2/	50,823	50,823	53,017	Met	12,611	26,861	26,069	42,874	62,573	13,261	29,065
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit (UMB) and Monthly Social Benefit (MSB) programs 2/	2,800	2,800	2,815	Met	722	1,444	1,444	2,166	2,888	744	1,487

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

1/ As defined in the TMU.
2/ Cumulative from the beginning of the year.
3/ 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$400 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 will not be lower than 30 percent.

Table 2. Kyrgyz Republic: Prior Action and Structural Benchmarks under the Extended Credit Facility for 2012–13

Measure	Timing	Macroeconomic Rationale
Structural Benchmarks		
I. FISCAL POLICY		
Strengthen public financial management by:		
Adopting an instruction for introducing, through TMIS, a commitment control system based on cash limits.	End-July, 2012	Strengthen the treasury's ability to check commitments against authoritized limits, register commitments and enhance control and recording of cash spending requests.
Reforming the ministry of finance by revamping its organizational structure consistent with Fund TA advice.	End-September, 2012	Increase the efficiency of government and public financial management, in particular.
II. FINANCIAL SECTOR		
Disseminate Zalkar prospectus and complete its valuation.	End-June, 2012	Complete resolution of Zalkar Bank.
Complete Zalkar sale.	End-December, 2012	Complete resolution of Zalkar Bank.
Submit the 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; and (iii) enhance legal protection for NBKR staff and agents. The Banking Code reform will also: (i) establish the NBKR's sole authority to hold and manage official foreign reserves, and (ii) extend the term of engagement of the NBKR external auditors.		Strengthen bank resolution framework and supervisory independence of the NBKR. This will also ensure the supremacy of the NBKR law over other laws and regulations that might affect the NBKR; Strengthen institutional and financial autonomy of the NBKR.
(i) to Fund staff	End-April, 2012	
(ii) to government	End-December, 2012	
(iii) to parliament	End-March, 2013	
In line with the Fund's TA advice, submit to the Parliament draft amendments to the AML/CFT law and to the relevant provisions of the Criminal Code to strengthen the AML/CFT legal framework. These provisions include the criminalization of money laundering and terrorist financing; identification, tracing and freezing of terrorist assets; confiscation of funds related to money laundering; and customer due diligence measures for all financial institutions	End-September, 2012	Bring the AML/CFT legislation in line with the Financial Action Task Force standard.

ATTACHMENT II. KYRGYZ REPUBLIC: REVISED TECHNICAL MEMORANDUM OF UNDERSTANDING

April 12, 2012

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 1 of the Letter of Intent dated April 12, 2012 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, 2013, 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, the ten 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), and any other newly created public development institution. The State budget comprises central and local government budgets. The general government budget includes the State and Social Fund budgets.

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.

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[1]

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

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

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.[2] For program monitoring purposes, total international reserve assets and liabilities will be valued at the program exchange rates as described in paragraph 9. Thus calculated, the stock of net international reserves in convertible currencies amounted to US$1,638 million on December 31, 2011.

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 assets. For program monitoring purposes, other NFA will also be valued at program exchange rates.

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.

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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.

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 14,080 million on December 31, 2011.

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.

17. 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

18. 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 by 30 percent of a disbursed ACF budget support loan. The ceiling on the cumulative overall cash deficit of the general government will be adjusted 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 and accumulation of new external payment arrears by the public sector (continuous quantitative performance criteria)

Definitions

19. **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.

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

21. **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$400 million) is tied to infrastructure projects in the energy sector. Should the total borrowings for these projects be less than US$400 million, the remaining space cannot be used to borrow for other projects. The grant element on these loans will not be lower than 30 percent.

22. **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.

23. **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.

24. **New external payments arrears.** The ceiling on accumulation of new external payments arrears is a continuous quantitative performance criterion.

C. Indicative targets

Ceiling on reserve money

25. **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

26. **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

27. **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

28. 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 (see Table 4). In particular, the government and the NBKR will provide the following specific information.[3]

A. The balance sheet of the NBKR

29. 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 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.

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

B. Monetary survey

30. 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.

31. 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

32. 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 (see 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

33. 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

34. 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

35. 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

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

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

	2012 1/			2013 1/	
	June	September	December	March	June
Program grants	35.0	37.6	70.0	10.5	24.5
Program loans	0.0	0.0	32.6	4.9	11.4
Public investment program loans	91.1	77.7	119.5	17.9	41.8
Amortization of public external debt	21.3	28.7	43.1	6.5	15.1
Interest payments	20.6	34.1	39.6	5.9	13.8

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