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Kyrgyz Republic and the IMF

Press Release:
IMF Executive Board Discusses Financial System Stability Assessment of the Kyrgyz Republic
December 19, 2012

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

November 15, 2013

Letter of Intent

November 15, 2013

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C., 20431
U.S.A.

Dear Ms. Lagarde:

The fourth 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 June 10, 2013. We are grateful to the IMF for its continued support of our economic reform program.

The ECF arrangement continues to play a pivotal role in maintaining macroeconomic stability and in promoting private sector-led growth. Following the disruption in gold production in the largest gold-mining company and negative growth in 2012, the economy rebounded strongly this year with robust and broad based growth in a low inflation environment. We have advanced our negotiations with the gold mining company Centerra and signed a memorandum of understanding that is being considered by parliament.

The program remains on track and the government is committed to the reform path under the ECF arrangement. For the fifth review of the ECF-supported program, all end-June 2013 quantitative performance criteria and all but one indicative targets were met. A new tax policy department was created in the ministry of finance at end-June. The department is now fully staffed. The Banking Code has been reconciled at the government level in line with Fund advice and has been submitted to parliament for approval. Public Financial Management (PFM) reforms are also on track. The regulation on expanding the coverage of the commitment register to include local budgets and special means could not be issued on time because we needed to address numerous comments from government agencies. We are committed to issue this regulation ahead of the IMF Executive Board's consideration of the fifth review. The sale of Zalkar bank was successfully completed in May. The new owner, who rebranded the bank into Rosinbank, started recapitalization in September. The bank is expected to expand the range of its services. The government has also fully paid for its share of Rosinbank's recapitalization.

In view of our achievements and continued commitment to the program, we request completion of the fifth review under the ECF-supported program. We request the sixth disbursement under the ECF arrangement in the amount of SDR 9.514 million (US$14.57 million). We ask that the sixth and seventh disbursements under the ECF arrangement be channeled to the budget. The government believes that the economic and financial policies set forth in our LOI and MEFP of June 2, 2011, the LOIs of November 17, 2011; April 12, 2012; November 14, 2012; and May 20, 2013, supplemented with this LOI and the modified quantitative performance criteria and updated structural benchmarks (Tables 1 and 2, respectively) are adequate to meet the objectives of the ECF arrangement. During the period of the ECF arrangement, the Kyrgyz government will continue to maintain a policy dialogue with the Fund and stands ready to take additional measures as needed. We will consult with Fund staff on such measures and in advance of revisions contained in the MEFP dated June 2, 2011, LOIs of November 17, 2011; April 12, 2012; November 14, 2012; May 20, 2013, and this updated LOI in accordance with Fund policies.

As in the past, the government of the Kyrgyz Republic agrees to publish this letter and other ECF-related documents circulated to the IMF Executive Board on the IMF website.

Policies for the reminder of the Year and Beyond

1. The policies and commitments set out in the LOI and MEFP dated June 2, 2011, the LOIs dated November 17, 2011; April 12, 2012; November 14, 2012; and May 20, 2013 remain valid and are updated with this LOI.

2. The Government's policy framework will continue to focus on sustaining macroeconomic stability.

- Growth in 2013 is expected to rebound strongly to at least 7.8 percent on the back of the recovery in gold production and continued strong performance in the nongold sector. We expect growth to moderate to 6.5 percent in 2014 because of the impact of slower growth in Russia on the Kyrgyz economy. Growth is expected to stabilize at 5 percent in the medium term.

- Twelve-month inflation continued to drop during the first 8 months of 2013 and we reduced core inflation to single digits in May. We will keep monetary conditions tight to ensure that inflation remains in single digits in 2013 and beyond.

- The current account deficit is estimated to decline in 2013, helped by the recovery in gold output and lower food and fuel prices. However, because of the substantial import intensive FDI and infrastructure loans, the current account deficit will deteriorate in 2014 and decline gradually over the medium term. Lower gold prices, slower projected growth in trading partner economies, and higher imports related to ongoing public investment projects are contributing factors to the lower than anticipated recovery.

- While gold prices are expected to be lower than anticipated, we are committed to maintain the fiscal deficit target of 5.2 percent of GDP in 2013. Notwithstanding the loss of non tax revenue related to the closure of the Manas transit center, we are committed to keep the fiscal deficit on a sustainable path. We project a deficit of 4.1 percent of GDP in 2014, declining to 2.3 percent of GDP by 2016.

- We will continue to carefully monitor external borrowing to ensure that public debt remains manageable and continues its downward path in the medium term.

3. **We are mindful of the risks to our medium-term projections. Lower gold prices could pose additional challenges for balance of payments stability.** A protracted slowdown in Russia could further spill over to the region, including the Kyrgyz Republic, via the remittances and external demand channels. Ruble deprecation against the U.S. dollar did not have a significant impact on the Kyrgyz economy so far, but we will be monitoring developments carefully.

A. Fiscal Policy

4. **We are on track to achieve the agreed deficit target for 2013 despite lower gold prices and slower growth in our major trading partners.** The decline in tax revenues due to lower gold prices is partly offset by a Russian grant that we received in July this year. Our efforts to consolidate the fiscal position are focused on streamlining nonpriority spending, while safeguarding social outlays. We increased the average pension by 11 percent on October 1, 2013 and are maintaining spending on key social programs. Additional external financing (PIP loans and grants) and faster implementation of investment projects are enabling us to further increase capital outlays in 2013, including for much needed energy and road infrastructure.

5. **We are fully committed to continued fiscal adjustment in 2014 and over the medium term.** The 2014 budget is based on prudent revenue forecasts, including conservative gold price assumptions, wage bill and non-priority expenditure restraint, and social considerations. In particular:

- We expect a marginal increase in tax revenues in 2014 because of the slowdown in growth. The decline in nontax revenues as a result of the closure of the Manas transit center (US$ 60 million in 2014 and US$120 million thereafter) is anticipated to be offset partly by grants.

- We continue our efforts to strengthen tax administration and to increase compliance, including with support from the IMF. We piloted the new tax compliance approach by targeting high risk economic sectors. We are working on rolling out a broader sectoral compliance plan, which is expected to improve revenues collections in the future.

- The government remains fully committed to gradually reducing the wage bill as a share of GDP. We envisage that the wage bill will decline by 1 percent of GDP in 2014 compared with 2013. The ongoing procurement reform, including e-procurement, is helping to generate fiscal savings by reducing outlays on goods and services by 1 percent of GDP in 2014 compared with 2013.

- We will increase pensions by 9 percent in 2014, in line with our legislation, to reflect the increase in the minimum subsistence level. We assign high priority to alleviating poverty, which increased by 1.2 percent in 2012. As a result, we will raise the minimum targeted social income by 10 percent in 2013, as well as a number of other social transfers such as food allotments for elderly people, special needs schools, and orphanages.

6. We are mindful of the fiscal challenges posed by the closure of the Manas transit center. We are working on indentifying measures to offset the permanent revenue shortfall over the medium term and keep the deficit on a sustainable path. To this end, we are planning an additional increase in excises on tobacco and alcohol in 2014 and we are exploring new avenues to increase tax collection by improving tax administration. We are looking forward to the forthcoming IMF TA on tax policy, which is expected to help us raise additional revenues. At the same time, we are expecting an increase in revenues related to income from the new oil refinery, which will start operations in 2014, and revenues from the Chinese gas pipeline. The pipeline is expected to generate revenues in the amount of US$35 million starting in 2017, gradually increasing thereafter (up to US$70 million). Over the medium term, we will continue to rationalize nonpriority spending, in particular on goods and services, and to decrease the wage bill as a share of GDP to create fiscal space for pro-poor and pro-growth spending. We will also improve budget planning of the social fund.

7. We continue to improve debt management with a view to reducing the debt service burden on the budget. We updated the medium-term debt management strategy to include the World Bank's medium-term debt management strategy analytical tool. We acknowledge that transforming the government securities market into a deep and liquid market will take time. The new trading platform of the National Bank of the Kyrgyz Republic (NBKR), which will remain the government agent for conducting primary auctions and the central depository for all government securities, enables us to improve the operational infrastructure for the primary market of government securities.

8. Finalizing PFM reforms remains a key priority. We completed requirements (technical specifications) for the Treasury Management Information System (TMIS), and are testing the necessary forms and modules. We expect to finalize the testing of the TMIS in the first quarter of the 2014, and introduce the Treasury Single Account (TSA) on a pilot basis by end-April 2014 (structural benchmark). This remains a complex issue that will require close cooperation with the vendor. At the same time, we are working with the IMF regional advisor and the World Bank to finalize the regulation on accounting and financial reporting using the unified chart of accounts on the basis of international norms. The regulation on expanding the coverage of the commitment register to include local budgets and special means could not be issued on time because we needed to address numerous comments from government agencies. We are committed to issue this regulation ahead of the IMF Executive Board's consideration of the fifth review (prior action). We reconciled the Procurement Law at the government level and submitted it to the parliament for approval. We also presented the revised version of the Budget Code to parliament.

B. Monetary, Exchange Rate, and Financial Sector Policies

9. The NBKR will maintain a tight monetary policy stance to keep inflation in single digits in 2013 and beyond. Even though core inflation declined to single digits in May 2013, the strong recovery in economic activity this year is putting pressure on inflation. We will respond to these pressures by further tightening monetary policy. We acknowledge that second-round effects of unexpected external price shocks will require further policy actions. The NBKR will maintain its policy of intervening in the foreign exchange market to smooth excessive volatility and ensure orderly market conditions.

10. We are stepping up our efforts to enhance the operational framework for monetary policy and improve transmission channels. We are fine-tuning the model developed with the help of the IMF and EBRD to improve inflation forecasting and better understand economic relationships in our country. The NBKR board will issue a decision by the end of the year (structural benchmark) to:

- Use the policy rate (currently the discount rate) as an operational target for monetary policy. We will continue to refine the new model to determine the level of the policy rate and phase out current practice of determining the policy rate based on the average of the last four auctions. The announced policy rate is expected to signal to banks the monetary policy direction and guide them in placing bids for NBKR facilities.

- Reactivate the overnight deposit facility that will, together with the overnight lending facility, create a corridor around the policy rate. We will also start reimbursing overnight deposits. Moreover, we will revise the mechanism to set the level of the overnight lending rate.

- Introduce a short term liquidity facility that will be available to banks without sanctions. This facility will enhance interbank trading by providing a backup option in case of liquidity shortages. Moreover, we will reexamine the pricing of our 6-month refinancing facility with a view to set it above the short term liquidity facilities. This is expected to enable us to correct the interest rate structure.

- Preannounce the schedule of the NBKR's board meetings on monetary policy on the NBKR's website.

- Start issuing a press release after board meetings on monetary policy and economic developments. We will further improve the NBKR's communications about the macroeconomic outlook and the NBKR's forecasts through more regular and frequent press briefings, expert and discussion forums, and publication of notes and articles.

11. The NBKR and the ministry of finance will continue to cooperate closely to facilitate liquidity management. In particular, the government will carefully plan the timing of the issuance of government securities to avoid an excessive drawdown of government deposits, thereby facilitating liquidity management. The NBKR and the government will work to determine the minimum level of government deposits at the NBKR to facilitate liquidity management. In addition, we will conduct timely and sufficient OMOs and periodically reassess the maturity of notes used for OMOs to better withdraw excess liquidity. The potential adverse impact on NBKR profits will not be a constraint to the implementation of monetary policy.

12. We will limit reserve money growth to support the new monetary policy framework, improve monetary transmission and facilitate financial sector development. This is expected to help make liquidity scarce, thereby providing incentives to banks to start trading with each other and explore options to attract cash in circulation into bank deposits.

13. Our financial sector remains broadly sound. Banks are well capitalized and liquid, and nonperforming loans continue to decline. Deposits and loans have also increased. We continue our efforts to address remaining vulnerabilities in the banking sector

- We reconciled the Banking Code within government and sent it to parliament in September, 2013. We will communicate to parliament the major benefits of the new code to ensure that it remains consistent with IMF TA advice and organize training for members of parliament and judges on key features of the code.

- We welcome the FSAP recommendation to develop a strategic supervisory plan. The plan will enable us to strengthen our supervisory function by improving the regulatory framework, organizational, human and financial resources. It will prepare us for the challenges arising from the ongoing modernization of the banking sector**.** The strategic plan will set out the main principles of improving supervisory functions (including consolidated and risk-based supervision, and supervision of systematically important banks).

- We will establish a formal crises preparedness plan, in line with FSAP recommendations, that will involve the following key institutions: the Prime Minister Office, NBKR, ministry of finance, and Deposit Protection Agency. We will set up a council that will work on the financial crises preparedness plan and financial sector development.

- We are analyzing the modalities of unifying minimum capital requirements for banks, both existing and new. We expect to complete the analysis by end-February 2014 with a view to determining the appropriate level of unified capital requirements and the timeframe for implementation. We are mindful of the need to preserve at least current capital adequacy ratios. We believe that eliminating the current two-tier capital requirements for banks will increase competition in the banking sector.

14. Progress in resolving banks under liquidation remains limited. To make a decision on initiating the long-overdue liquidation and writing off the claims against these banks dating back to the 1990's requires an audit of the assets. Therefore, the government will instruct the Debt Resolution Agency (DEBRA) board to identify and sign a contract with one of the big 4 audit companies to audit DEBRA (structural benchmark). The findings of the audit will help us and other creditors to write-off the claims and finalize the liquidation process of the remaining six banks on DEBRA's balance sheet (one of the banks under liquidation was resurrected recently by a Swiss investor and is starting to operate).

15. We will work with parliament to ensure that the draft AML/CFT law and the reconciled version of the draft payment system law are adopted swiftly, in line with Fund technical assistance (TA). We submitted a draft Law on the payment system that was approved by the Parliament in June, 2013, but later objected by the President of the Kyrgyz Republic. We will urge the parliament to review the President's objections as soon as possible and adopt the reconciled version of the payment system law in due course. We worked with the parliament to introduce amendments to the Criminal Code (to criminalize money laundering and financing of terrorism, and the confiscation of assets) that were also supported by the President. We also adopted the freezing of Terrorists' Assets Regulations in line with IMF TA advice. We revised the relevant provisions of the draft AML/CFT Law (customer due diligence, suspicious reporting requirements, supervisory framework, and the Financial Intelligence Unit) in line with the proposals by the parliamentary committees, the private sector, and IMF TA advice that will be discussed and adopted during the parliamentary committee review process. We will urge the parliament to adopt the AML/CFT law in line with IMF TA advice and the revised FATF recommendations. Timely action through the adoption and publication of these laws should contribute to progress in the implementation of the action plan agreed with the FATF with a view to exiting the International Cooperation Review Group process in due course.

C. Structural Policies

16. Further improving the business environment remains a key pillar of our strategy to achieve a sustainable and inclusive growth. We continue to streamline the de facto regulatory burden and foster the implementation of the existing rules to improve the attractiveness of the Kyrgyz economy for domestic and foreign investors. Our aim is to further reduce the state's role in the economy and make the private sector the engine of the growth. We have established several social platforms where businesses and government can discuss, identify, and address impediments to business development. We intend to monitor the progress in improving the business environment via business surveys. Moreover, we conducted several extensive business forums that allowed concluding a series of mutually beneficial agreements between businesses in the Kyrgyz Republic and other countries. We are streamlining the process of issuing of licenses and permits. A draft law has been submitted to the parliament in June. The new risk-based approach to inspection is expected to reduce the regulatory burden on businesses.

17. We will prepare the annual progress report (APR) of our Medium Term Development Program by early 2014. The APR will be based on the recently approved Kyrgyz Republic 2013-2017 National Sustainable Development Strategy (NSDS). The strategy focuses on accelerating economic growth, consolidating macroeconomic stability, maintaining debt sustainability, and advancing structural reforms. It recognizes that improving the business environment, reforming the public sector, strengthening the financial system, and addressing infrastructure development needs are essential for achieving high, broad-based, and inclusive growth and reducing poverty. Our development partners expressed readiness during the high level development conference in July to finance new projects in support of the NSDS provided that the government continues strong policies and establishes efficient institutions.

D. Program Monitoring

18. The ECF-supported program will continue to be monitored through quantitative performance criteria, indicative targets, and structural benchmarks. Quantitative performance criteria for December 2013 and indicative targets for September 2013, December 2013, and March 2014 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 sixth and final review under the ECF arrangement is expected to take place on or after April 30, 2014. 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 as updated in the attached.

Sincerely yours,

/s/
Zhantoro Satybaldyev
Prime Minister of the Kyrgyz Republic

/s/
Olga Lavrova
Minister of Finance of
the Kyrgyz Republic

/s/
Zina Asankojoeva
Chairperson of the National
Bank of the Kyrgyz Republic

Table 1. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, June 2013–March 2014

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

	2013							2014					
	June				September	December		March		June		September	December
	QPC				IT	QPC		IT		Target 4/		Target 4/	Target 4/
	4th Rev.	Adj.	Act.	Status	4th Rev.	4th Rev.	Revised	4th Rev.	Revised	4th Rev.	Revised		
Quantitative performance criteria 1/													
1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars)	1,848	1,864	1,894	Met	1,861	1,941	1,964	1,921	1,967	1,971	2,056	2,095	2,117
2. Ceiling on net domestic assets of the NBKR (eop stock)	-14,419	-15,111	-16,475	Met	-11,617	-10,564	-12,480	-16,320	-13,845	-15,056	-15,492	-14,078	-10,311
3. Ceiling on cumulative overall cash deficit of the general government 2/	6,486	5,729	2,172	Met	11,644	18,273	18,273	1,345	1,410	6,337	5,447	9,641	16,355
4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/	30	30	30	Met	0	0	0	0	0	0	0	0	0
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	0	0
Indicative Targets 1/													
1. Ceiling on reserve money	66,808	66,808	66,916	Not met	70,243	75,053	74,998	74,146	73,778	77,765	76,331	79,563	84,354
2. Cumulative floor on state government tax collections 2/	31,412	31,412	32,773	Met	49,599	71,886	71,186	17,263	16,823	36,054	36,301	56,530	81,831
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit (UMB) and Monthly Social Benefit (MSB) programs 2/	2,175	2,175	2,175	Met	3,318	4,570	4,323	1,223	1,169	2,447	2,338	3,557	4,755

Sources: Kyrgyz authorities and IMF 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 of less than 35 percent, cumulative from April 1, 2013. The QPC was missed in February 2013 because of the contracting of a non-concessional loan in the amount of US$30 million and a waiver was granted on June 10, 2013. The total amount of non-concessional loans contracted from the beginning of the program is US$30 million.

4/ The authorities and staff agreed on targets for June, September, and December 2014 (after the arrangement expires on June 19, 2014). Targets beyond March 2014 are nonbinding.

Table 2. Kyrgyz Republic: Structural Benchmarks and Prior Actions under the Extended Credit Facility for 2013–14

Measure	Timing	Macroeconomic Rationale	Status
Prior Action			
Issue a regulation on expanding the coverage of the commitment register to include local budgets and special means.			
Structural Benchmarks			
I. FISCAL POLICY			
Create a new, adequately staffed, department on tax policy in the Ministry of Finance.	End-June, 2013	Develop a sound revenue base by strengthening the tax policy function by ensuring that the Ministry of Finance becomes the focal point on all tax policy-related matters.	Met
Issue a regulation on expanding the coverage of the commitment register to include local budgets and special means.	End-September, 2013	Optimize spending by enhancing the treasury's ability to exercise public expenditure control.	Not met
Develop and approve regulations on accounting and financial reporting using the unified chart of accounts on the basis of international norms.	End-December, 2013	Optimize spending by strengthening the treasury's ability to conduct prudent expenditure management.	In progress
Introduce the Treasury Single Account on a pilot basis.	End-April, 2014	Optimize spending by strengthening the treasury's ability to conduct prudent expenditure management.	New
II. FINANCIAL SECTOR			
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 government	End-April, 2013		Met
(ii) to parliament	End-September, 2013		Met
Identify and sign contract with one of the big 4 audit companies to audit DEBRA.	End-February, 2014	Speed up the liquidation process.	New
III. MONETARY POLICY			
Issue a board decision comprising the following: (i) use the policy rate as an operational target for monetary policy; (ii) reactivate instruments to create a corridor around the policy rate; (iii) introduce a short-term liquidity facility; (iv) preannounce the schedule of the NBKR's board meetings on monetary policy on the NBKR's web site; (v) start issuing a press release after board meetings on monetary policy and economic developments.	End-December, 2013	Enhance the monetary policy framework and improve transmission of monetary policy.	New

Revised Technical Memorandum of Understanding

November 15, 2013

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 November 15, 2013 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 December 31, 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 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 1a), 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 is 5 percent. 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

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, deposits of commercial banks in foreign currency 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. 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$1,922 million on September 30, 2013. Net international reserves including deposits of commercial banks in foreign currency amounted to US$1,939 million on September 30, 2013.

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.

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) net claims to the general government from the NBKR; (b) net claims to other depositary corporations 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 16,575 million on September 30, 2013.

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/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 sometime 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.

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.

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.

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 1a. Kyrgyz Republic: Ten largest SOEs
(Included in the public sector)

	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 1b. Kyrgyz Republic: Other SOEs
(To be monitored, not included in the public sector)

	Name of SOE
11	JSC "Chakan HPP"
12	JSC "Kyrgyzstan Airlines"
13	JSC "Khaidarkansky Mercury Plant"
14	JSC "Uchkun"
15	JSC "SSC Bank"
16	JSC "Vostoc Electro"
17	JSC "Osh Electro"
18	JSC “Jalalabat Electro"
19	SOE Fuel and Refueling Complex "Manas"
20	SOE "Kyrgyz Pochtasy"

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

Abbreviation	Currency Name	Currency/US$	US$/Currency
AUD	Australian Dollar	0.9971	1.0029
CAD	Canadian Dollar	1.0098	0.9903
CNY	Chinese Yuan	6.6387	0.1506
JPY	Japanese Yen	83.0287	0.0120
KZT	Kazakh Tenge	147.4129	0.0068
KGS	Kyrgyz Som	47.0992	…
LVL	Latvian Lat	0.5406	1.8500
MYR	Malaysian ringgit	3.1012	0.3225
RUB	Russian Ruble	30.6345	0.0326
CHF	Swiss Franc	0.9635	1.0379
GBP	UK Pound Sterling	0.6487	1.5416
TRY	New Turkish Lira	1.5499	0.6452
SDR	SDR	0.6551	1.5266
BYR	Belarusian Ruble	3011.5757	0.0003
EUR	Euro	0.7622	1.3120
UAH	Ukrainian Hryvnia	7.9783	0.1253
SGD	Singapore Dollar	1.3011	0.7686
CNH	Chinese Yuan	6.5700	0.1522
NOK	Norweigan Crown	5.8218	0.1718
SEK	Swedish Crown	6.7098	0.1490
XAU	Gold (US$/troy ounce)	1405.5000	…

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

	2013 1/			2014 1/	
	June	September	December	March	June
Program grants	3.7	25.7	50.7	5.5	40.3
Program loans	38.9	38.9	65.6	11.3	51.0
Public investment program loans	75.4	185.2	295.0	72.2	144.3
Amortization of public external debt	20.9	29.1	45.8	9.2	18.4
Interest payments	15.5	29.2	34.4	10.4	20.8

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