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Georgia: Letter of Intent and Technical Memorandum of
Understanding

November 25, 2009

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

November 25, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C.

Dear Mr. Strauss-Kahn:

1. In September 2008, the International Monetary Fund (IMF) approved a Stand-By Arrangement (SBA) for Georgia. On August 6, 2009 the IMF's Executive Board completed the third review of the SBA and approved an increase in the credit available under the SBA of SDR 270 million, and an extension of the program until June 14, 2011. This support has been valuable in dealing with the many economic challenges facing Georgia and we are grateful for IMF assistance.
2. This letter of intent describes the economic policies that we plan to implement during the rest of 2009 and in 2010. As always, we are committed to policies that will maintain macroeconomic stability, protect the economy from shocks associated with the global economic crisis and facilitate the process of macroeconomic adjustment. We, of course, remain committed to implementing the measures contained in previous letters of intent, i.e. those dated September 9, 2008, November 28, 2008, March 10, 2009 and July 30, 2009.

Recent Economic Developments

3. Growth in H1 2009 amounted to minus 8.5 percent, as the impact of the global economic crisis on the Georgian economy exacerbated. Most of the sectors contracted, with trade, manufacturing, and construction worth particular mentioning. Plummeted private capital inflows as well as shrinking external trade and commercial bank lending contributed to the contraction of economic activity.
4. As a result of a broad decline in economic activity and falling global commodity prices, inflationary pressures have declined. End-period inflation was 5.5 percent for 2008 and twelve-month inflation was only 2.3 percent as of end-June 2009 but picked up to 3.2 percent as of end-October 2009. Taking into account the recent increase of global commodity prices and signs of improvement in economic activity, we expect inflation to reach 3.5 percent by the end of 2009. Year-on-year growth of reserve money and lari broad money has been negative since November 2008 but turned positive in the third quarter of 2009.
5. Fiscal performance has been adversely affected by the ongoing economic decline. Tax collection in the first three quarters of 2009 declined by 9.6 percent in nominal terms, compared with the same period of last year. Expenditures in the same period were contained at GEL 4,637 million (general government, including capital expenditures), or 6.1 percent

lower than the same period of last year (excluding one-off effects). In all, the fiscal deficit reached 6.7 percent of projected annual GDP in the first three quarters of the year, in line with program projections.

6. On September 24th, 2009, the Parliament approved the new Organic Law of Georgia “On the National Bank of Georgia”, effective December 1, 2009. According to this new law, the Financial Supervision Agency (FSA) has been merged with the NBG, giving the central bank authority to supervise the entire financial sector. The merger will improve coordination between macro and supervisory teams of the NBG and will increase the effectiveness of macro-prudential oversight. In the new law, the NBG is given responsibility for maintaining price stability over the medium term. This change allows for introduction of a soft inflation targeting regime.

7. Consistent with our commitment to increase exchange rate flexibility, starting from May 25, 2009, the NBG foreign exchange interventions are conducted only through the foreign exchange auctions. Along with the weak demand for foreign currency, foreign exchange auctions allowed for less NBG intervention. From March to the end of October, the NBG’s net sales of foreign currency were less than USD 15 million on average per month. Furthermore, starting from October, the NBG expanded the deviation band for auction bids from 0.5 percent to 1 percent of the official exchange rate.

8. Balance of payments data for the second quarter of 2009 show that exports and imports of goods and services declined by 26.6 percent and 35.9 percent, respectively, which reflects both a drop in commodity prices and lower demand for imports. Worker remittances dropped by 22 percent, whereas FDI inflows declined by 81 percent compared with the same period in 2008. As a result, the current account deficit dropped to 13.6 percent of GDP for H1 of 2009, showing an improvement of 15.1 percentage points from the previous year (28.7% in H1, 2008).

9. The banking sector not only proved to be resilient, but also shows signs of improvement. Commercial banks’ net profit in September 2009 turned out positive for the first time since July 2008. Meanwhile the share of non-performing loans has been slowly decreasing since July 2009. Over the last six months, the volume of deposits has shown steady growth. Average capital adequacy at the end-September increased by almost 3 percentage points since May, currently at 20.2 percent. Credit to the private sector has contracted sharply since the beginning of the year, however it has stabilized in the recent period.

10. Since June 3, 2009, the total volume of foreign exchange swaps reached GEL 60 million. Pricing of the swaps suggest that, the market did not anticipate exchange rate depreciation. Commercial banks used swaps for converting existing FX denominated loans into lari loans, thus decreasing the credit risk for the unhedged borrowers. However, given high lari liquidity position of the banks demand for swaps was limited. As committed in the

previous LOI, at this moment, NBG is not intending to increase the volume of swaps beyond the existing level.

11. In order to enhance the safety and efficiency of the international reserves management process, the NBG is implementing a new portfolio management system. The system will cover front-middle-back office and accounting functionality based on Straight Through Processing (STP) principles. The system will be IFRS compliant and will allow NBG to introduce new, more sophisticated financial instruments and investment techniques in its reserves management process. The new system will help NBG bring its reserves management procedures in line with international best practices. The project is scheduled to be launched in November, following the signing of the contract with the preferred vendor, and the system is expected to become fully operational by the end of 2010.

12. Based on the results of the stress tests carried out by the FSA, we have prepared a Contingency Plan (CP) which sets out a framework for policy makers to coordinate their policies and actions to mitigate systemic risks to the financial sector and, in case of realization of such risks, to reduce the social cost of any ensuing financial distress. The members of the Contingency Working Group have discussed the results of the stress tests and agreed to the coordination and policy modalities laid out in the Contingency Plan, including the division of responsibilities among the MOF, and the NBG-FSA. Although the banking system is adequately capitalized, the FSA continues to conduct regular stress tests on system wide and bank by bank level. We have also upgraded the legislation to enable the supervisor to conduct risk-based supervision, and we are in the process of introducing risk-based supervision. The new NBG Organic law also fills some of the legal gaps in the power of the regulator to intervene in the event of stress.

13. We continue to improve the efficiency and effectiveness of public finances. The Ministry of Finance is broadly on track in implementing the Public Finance Management Reform Policy Vision 2009-2013, including substantive progress in implementing the Reform Action Plan for 2009. In 2009, one of our key priorities has been the review of the existing budget legislation and preparation of the new budget code. The draft budget code has been submitted to the cabinet (structural benchmark for end-July 2010) and it is being discussed in the Parliament, with adoption expected for November 2009. The new budget code seeks to consolidate all legislation related to the budget process into a single law, to better integrate the medium-term economic and fiscal framework (BDD) and the public investment program into the annual budget cycle, and to prepare the ground for results-oriented budgets. By end-September 2010 we intend to seek cabinet approval of the methodology to introduce a programmatic approach to budgeting (structural benchmark).

Macroeconomic Policies for 2009 and 2010

14. Our major macroeconomic challenge continues to be the restoration of economic growth. This will, of course, require the resumption of private capital inflows and domestic

lending in support of investment projects. At the same time, we recognize that many of the extraordinary actions undertaken in response to the economic crisis are not sustainable in the medium term. Hence, our efforts to enhance macroeconomic stability will concentrate on intensifying economic reforms, refining policy instruments and achieving a sustainable fiscal and external balance as quickly as possible.

15. The available economic data suggests a slowdown in the annual rates of economic contraction, due to recovery of certain economic activity as well as the base year effect. The 8.5 percent contraction of real GDP in H1 2009 will decrease in the second half of the year, with our moderate projections pointing to approximately 4 percent real GDP contraction in 2009, precluding any further external shocks. In 2010, we anticipate economic recovery with real GDP growth projected at 2% and we target inflation rate of 6% per annum.

16. The current account deficit for this year is expected to moderate to around 15 percent of GDP from a record high level of nearly 21.6 percent in 2008. Exports and imports of goods and services are projected to decline by 19 percent and 28 percent, respectively. Worker remittances are expected to drop by around 10 percent for the year. We project FDI inflows in the amount of around US\$700 million for 2009, which is 54 percent lower than in 2008 and deprives the economy of an important source of growth. Overall, we expect an accumulation of gross reserves in 2009 of about US\$525 million, excluding the purchase of SDR 47.3 million that will be available to us upon completion of the fourth review.

17. Our fiscal stance for the remainder of 2009 will continue to sustain demand, with a significant contribution from donor-financed spending. While revenues are lower and spending is reduced, the overall deficit is in line with program targets. The shortfall in revenue linked to the deterioration in economic activity will widen the fiscal deficit to 9.6 percent of GDP for the year.

18. In 2010-11, we expect a recovery in private capital inflows to begin. Despite considerable fiscal adjustment, the current account deficit is expected to widen marginally in 2010, owing to adverse terms of trade developments, and to narrow again in 2011. Also, in view of the continued high uncertainty in the external environment, there is a need to increase the reserve buffer to more comfortable levels. Accordingly, we have sought Fund's support in covering a financing gap of around \$400 million in 2010.

19. We realize that the fiscal stimulus measures currently deployed by the Government are essential for minimizing the impact of the global financial downturn on Georgia; we also believe that this stimulus must not jeopardize Georgia's longer-term fiscal sustainability. We consider that restoring a sound fiscal position is also critical in view of external debt repayment obligations falling due in 2013-14. Starting in 2010, we are therefore committed to an ambitious program of deficit reduction. Our target is to reduce the deficit to 7.3 percent of GDP in 2010 (SBA definition). The draft budget for 2010 submitted to the Parliament on November 1, 2009 envisages sustainment of social expenditures as a share of GDP while

tapping the donor funding for the bulk of infrastructure spending. Based on further expenditure containment, as well as an expected recovery of tax revenues and expected rebound in the GDP growth, we are committed to steady reductions in the deficit to 2-3 percent of GDP by 2013. These targets have been presented to parliament on November 1, as part of our 2010 budget submission.

20. In the third quarter of 2009, domestic debt instruments (treasury bills) were introduced. T-bill issuance responds to a market development need—not least so as to provide the NBG with another monetary policy tool and allow the banks to diversify their portfolio to include an important class of risk-free assets. At the same time, the cost of financing from this source has been unexpectedly low. The NBG has supported the development of a secondary market for T-bills by introducing an electronic trading platform. Consequently, we plan to increase issuance of T-bills in 2009 to around GEL 270 million. However, due to limits in the capacity of the banking sector to absorb additional T-Bills, we will need to rely on external balance of payments support to finance a portion of our budgetary needs in 2010. In the context of sustaining the agreed cap on the fiscal deficit, we expect to be able to mobilize additional budgetary support in 2010, and the Government's use of IMF resources for deficit financing will be reduced as such commitments are finalized. We intend to continue the issuance of T-bills in 2010. Treasury Bills issued in year 2009 will be entirely rolled over in 2010 and, depending on interest rates and other market conditions, approximately GEL 100 million of T-Bills will be issued in addition. In 2010 Ministry of Finance of Georgia plans to introduce 2-year Treasury Notes as well.

21. We continue to implement our public finance reform program, which we view as an important prerequisite to ensuring transparency, discipline, efficiency and accountability in the public finance area. We have progressed significantly in implementing our public finance reform action plan for 2009, which implies implementation of actions in a large number of areas, including developing liquidity management guidelines, preparing the functional and technical specification for the PFMS, developing a new format of the medium-term framework (Basic Data and Directions) document, improving the format of local budgets, ensuring functionality of the risk assessment tax audit system, further streamlining tax and customs codes and developing necessary sub-legislation, establishing electronic information exchange system between banks and the Revenues Service, improving capital budget document forms, establishing a customs audit and progressing towards risk-based customs control, fostering full functionality of the electronic treasury system and inclusion of all taxes into the e-filing system. We believe that implementation of these reforms will enhance efficiency and effectiveness in the use of public financial resources and will contribute to the overall resilience of the economy both now, in a time of stress, and over the medium term.

22. The monetary policy transmission channel has weakened due to the crises and remains ineffective under current excess liquidity conditions. NBG will increase issuance of CDs with due attention not to increase interest rates to a contractionary stance. As market conditions allow, the NBG will take further measures to restore monetary policy transmission

channel. We continue to project end-period inflation to be 3.5 percent in 2009 and 6 percent in 2010. These projections are, of course, sensitive to assumptions regarding the money multiplier and, in turn, commercial bank lending to the private sector, as well as international commodity price developments.

23. We remain fully committed to a flexible exchange rate policy. Continuation with the foreign exchange auctions will further contribute to determining the exchange rate through market forces, and all efforts are made to make this process as efficient as possible. The NBG will intervene to smooth extreme volatility, to counter speculative pressures and if large depreciation threatens financial stability.

24. Enhancing the competitiveness of the Georgian economy is, of course, of primary importance to us and is key to reducing Georgia's external current account deficit to more sustainable levels over the medium term. Georgia's extremely favorable business environment and geographic advantages put it in a good position to benefit from a generalized recovery of FDI flows to emerging markets. We expect that additional structural reforms will be at the root of future competitiveness gains. These include further privatization and reductions of the state's role in the economy.

25. To bring our official statistics in line with international standards, we intend to finish reorganizing the State Department of Statistics (SDS) by the end of H1 of 2010. New Law on State Statistics will strengthen the independence of the SDS and ensure the sustainable production of official statistics. To enhance the availability of timely and comprehensive statistics provided to the public, in H1 of 2010 we intend to become a subscriber of the IMF's Special Data Dissemination Standard (SDDS).

26. In order to ensure stable, long-term economic growth, the Liberty Act was introduced in 2009, which creates prudent limitations on government expenditures, budget deficits, debt levels and taxation, as well as guaranteeing many civil protections, such as freedom of labor and capital within Georgia's territory. Upon approval, this amendment will enact structural reforms to establish the following fiscal limitations, effective 2012: the consolidated budget at 30% of GDP, the consolidated budget deficit at 3% of GDP and the public debt at 60% of GDP.

Program Monitoring

27. All end-September performance criteria under the Stand-By Arrangement were met. We, therefore, request the completion of the Fourth Review. We intend to treat as precautionary the purchase of SDR 47.3 million that will be available to us upon completion of the fourth review. We will maintain our usual close policy dialogue with the Fund and are ready to take additional measures as appropriate to ensure that we meet program objectives. In particular, if the pressures on Georgia stemming from the global economic crisis are

greater than anticipated, the Government would adjust its fiscal and exchange rate policies to maintain external stability.

28. We request a modification of the end-December PC on NDA according to the attached Table 1, which also establishes end-March 2010 and end-June 2010 PCs, as well as indicative targets for September and December 2010. The fifth review will be based on end-December 2009 performance criteria and is scheduled for completion by end-March 2010; the sixth review will be based on end-March 2010 performance criteria and is scheduled for completion by end-June 2010; and the seventh review will be based on end-June 2010 performance criteria and is scheduled for completion by end-September 2010. The revised Technical Memorandum of Understanding clarifies the measurement of the government's cash deficit, the treatment of the purchases under the SBA that are directed for budget support and of SDR allocations in the calculations of net international reserves of the NBG, as defined by the program. Structural benchmarks under the program are described in Table 2.

29. We authorize the IMF to publish this Letter of Intent and its attachments as well as the accompanying staff report.

Sincerely yours,

/s/

Nika Gilauri
Prime Minister of Georgia

/s/

Kakha Baindurashvili
Minister of Finance

/s/

Giorgi Kadagidze
President of the National Bank of Georgia

Table 1. Georgia: Quantitative Performance Criteria and Indicative Targets, 2009-10

	Cumulative Change from End-December 2008				Cumulative Change from End-December 2009					
	Sep-09		Actual	Dec-09		Mar-10	Jun-10	Sep-10	Dec-10	
	Third review	Adjusted PC		Third review	Proposed PC	Proposed PC	Proposed PC	Ind. Target	Third review	Ind. Target
	(In millions of laris)									
Ceiling on cash deficit of the consolidated government	1,255		1,124	1,638	1,638	368	745	1,060	1,393	1,393
	(In millions of U.S. dollars)									
Ceiling on contracting or guaranteeing of new nonconcessional external debt by the public sector	850		0	850	850	850	850	600	600	600
	(In millions of laris)									
Ceiling on net domestic assets (NDA) of the NBG 1/	344	258	228	413	456	515	642	631	829	641
	(In millions of U.S. dollars)									
Floor on net international reserves (NIR) of the NBG 1/	813	858	876	740	740	713	587	605	609	609
Ceiling on accumulation of external arrears 2/	0		0	0	0	0	0	0	0	0

Sources: Georgian authorities; and Fund staff estimates.

1/ Actual figures and quantitative targets are based on program exchange rates.

2/ The continuous performance criterion for external arrears is defined in paragraph 15 of the TMU.

Table 2. Georgia: Structural Benchmarks

Action	Proposed Time Frame	Type of Conditionality	Status
FSA and NBG to sign and implement a memorandum of understanding to strengthen cooperation.	End-Oct-08	Structural Benchmark	Observed
NBG to introduce revised LOLR facility.	End-Dec-08	Structural Performance Criterion	Observed
Submission to parliament of a state budget for 2009 with an overall fiscal deficit of no more than 3¼ percent of projected GDP (subject to an adjustor of at most 3 percent of GDP as set out in the TMU).	End-Dec-08	Structural Benchmark	Observed
NBG to develop and publish a liquidity management framework, including the introduction of a refinancing mechanism as the main instrument to provide liquidity.	End-Mar-09	Structural Benchmark	Not observed. Implemented with delay
The NBG, the FSA, and the government to develop a financial stability plan that will contain policy actions to respond to potential situations of stress by defining the roles and responsibilities of the different players—the NBG, the FSA and the government—under each circumstance.	End-Jun-09	Structural Performance Criterion	Observed
Appointment of the remaining members to the FSA board.	End-Jun-09	Structural Benchmark	Not observed, became redundant with elimination of FSA board
Submission of a new budget code to the cabinet to make the budget preparation process more inclusive, enhance the budget execution monitoring process, and move to performance driven policy by improving strategic planning.	End-Jul-09	Structural Benchmark	Observed
Status report on the implementation of the action plan described in the Financial Stability Plan, including bank-by-bank contingency measures based on stress test results and assurances of support from foreign shareholders.	End-Sep-09	Structural Benchmark	Observed

Submission to parliament of the Law on Internal Audit.	End-Sep-09	Structural Benchmark	Observed
Submission to parliament of a state budget for 2010 that: (i) is consistent with the program targets and assumptions, and an overall deficit of no more than 7.3 percent of GDP (program definition); (ii) contains a medium-term fiscal framework consistent with the program's medium-term deficit reduction targets; and (iii) describes the medium-term policies underlying the fiscal deficit objectives through 2013.	October 1, 2009	Structural Benchmark	Observed
Cabinet approval of a new medium-term expenditure framework (Basic Data and Directions) that includes expenditure ceilings applicable to the 2011 budget.	July 31, 2010	Structural Benchmark	
Cabinet approval of the methodology to introduce a programmatic approach to budgeting, identifying the requirements in terms of budget preparation processes and information needs.	September 30, 2010	Structural Benchmark	

ATTACHMENT II. GEORGIA: REVISED TECHNICAL MEMORANDUM OF UNDERSTANDING

November 25, 2009

1. This memorandum sets out the understandings between the Georgian authorities and the IMF staff regarding the definitions of quantitative performance criteria and indicative targets, as well as respective reporting requirements for the Stand-By Arrangement (SBA). It replaces the technical memorandum of understanding dated July 30, 2009.
2. These performance criteria and indicative targets are reported in Tables 1 and 2 attached to the Letter of Intent dated July 30, 2009 and Tables 1 and 2 attached to the Letter of Intent dated November 25, 2009. The exchange rate for the purposes of the program of the Georgian lari to the U.S. dollar is set at GEL 1.67 = \$1. The corresponding cross exchange rates are provided in Table 1.

Consolidated Government and the Public Sector

3. **Definition:** The consolidated government is defined as the central government, local governments, extrabudgetary funds, and LEPLs (Legal Entities of Public Law) that provide general government services. In case the government establishes extrabudgetary funds, they will be consolidated within the consolidated government. The public sector consists of the consolidated government and the National Bank of Georgia (NBG).
4. **Supporting material:** The Treasury Department of the Ministry of Finance (MOF) will provide to the IMF detailed information on monthly revenues, expenditures, and arrears of the consolidated government. In addition, data will be provided on the cash balances in the accounts of the Ministry of Finance.

Quantitative Performance Criteria, Indicative Targets, and Continuous Performance Criteria: Definitions and Reporting Standards

I. Ceiling on the Cash Deficit of the Consolidated Government

5. **Definition:** The cash deficit of the consolidated government will be measured from the financing side at current exchange rates, and will be defined as equal to total financing. Total financing will be defined as the sum of (i) net domestic financing from banks and nonbanks, (ii) net external financing, and (iii) privatization receipts.
- Net domestic financing consists of bank and nonbank net financing to the consolidated government which will be defined as follows:
 - (i) Net lending (borrowing net of repayments) provided by commercial banks to the consolidated government plus the use of deposits held by the consolidated government at commercial banks. Monitoring of net lending and government

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

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

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

- Net external financing is defined as the total of loans disbursed to the consolidated government for budget support (including from the IMF), and project financing (capital expenditure and net lending), net change in external arrears, change in the accounts of the consolidated government abroad, minus amortization. Amortization includes all external debt-related payments of principal by the consolidated government.
- Privatization receipts consist of all transfers of monies received by the central and local governments in connection with the sale of central or local government assets. This includes receipts from the sale of shares, the sale of non-financial assets as well as leases and the sale of licenses with duration of 10 years and longer.

6. **Supporting material:**

- Data on domestic bank and nonbank financing will be provided to the IMF by the NBG and the Treasury Department of the MOF within four weeks after the end of the month.
- Data on external project financing as well as other external borrowing will be provided to the IMF monthly by the Debt Unit at the MOF (specifying projects by creditor) within two weeks of the end of each month.
- Data will be provided at the actual exchange rates.

- Data on privatization receipts will be provided by the Treasury Department of the MOF to the IMF on a monthly basis within two weeks of the end of each month. The data will be consistent with the revenue account(s) in the NBG.
- Data on securitized debt sold by the NBG, including the securities that have been purchased by nonbanks, will be reported by the NBG on a monthly basis within two weeks of the end of each month.

II. Floor on the Net International Reserves of the NBG

7. **Definition:** For the program purposes, net international reserves (NIR) of the NBG in U.S. dollars are defined as foreign assets of the NBG minus the sum of foreign liabilities of the NBG. Foreign assets of the NBG include gold, gross foreign exchange reserves, Georgia's SDR holdings, and the reserve position in the IMF. Gross foreign exchange reserves of the NBG are defined as liquid, convertible currency claims of the NBG on nonresidents, including cash holdings of foreign exchange that are readily available. Pledged or otherwise encumbered assets, including (but not limited to) assets used as collateral (or guarantee for third party external liabilities) are excluded from foreign assets. Foreign liabilities of the NBG shall be defined as the sum of Georgia's outstanding liabilities to the IMF, Georgia's SDR allocation, and any other liabilities of the NBG, excluding the foreign exchange balances in the government's account with the NBG. Thus defined, the definition of NIR excludes foreign assets stemming from foreign currency deposits of financial institutions at the NBG and foreign assets arising from the currency swaps with financial institutions. For program monitoring purposes, the stock of foreign assets and foreign liabilities of the NBG shall be valued at program exchange rates as described on paragraph 2 above. The stock of NIR amounted to \$879.8 million as of December 31, 2008 (at the program exchange rate).

8. Adjustors:

The floor on the NIR of the NBG will be adjusted:

- (a) upward/downward by 50 percent for any excess/shortfall in the balance-of-payments support loans and balance-of-payments support grants relative to the projected amounts presented in Table 2.
- (b) upward/downward by 50 percent for any excess/shortfall in the disbursements of the project loans and project grants to the Treasury Single account at the NBG relative to the projected amounts presented in Table 2.
- (c) upward 100 percent for any shortfall in the amount of conversion for government imports relative to the projected amounts presented in Table 2.

9. **Supporting material:** Data on net international reserves (both at actual and program exchange rates); net foreign financing (balance of payments support loans, cash grants to the consolidated government, amortization (excluding repayments to the IMF), interest payments on external debt by the MOF and the NBG); conversions for government imports and transfers of receipts from the Sovereign Wealth Funds will be provided to the IMF in a table on the NBG's foreign exchange flows (which include details of inflows, outflows, and net international reserves) on a weekly basis within three working days following the end of the week.

III. Ceiling on Net Domestic Assets of the NBG

10. **Definition:** Net domestic assets of the NBG are defined as the difference between reserve money and NIR as defined above, and as adjusted according to paragraph 8.

11. **Supporting material:** The NBG will provide to the IMF its balance sheet, which includes data on its net domestic assets, on a monthly basis within two weeks of the end of each month. Data will be provided using both actual and program exchange rates.

IV. Ceiling on Contracting or Guaranteeing of New Nonconcessional External Debt by the Public Sector

12. **Definition:** Nonconcessional external loans are defined as loans from lenders other than the IMF with a grant element of less than 35 percent of the value of the loan. The grant element is to be calculated by using currency-specific discount rates reported by the OECD (CIRRs).¹ For maturities of less than 15 years, the grant element will be calculated based on six-month averages of commercial interest rates. For maturities longer than 15 years, the grant element will be calculated based on 10-year averages. This performance criterion applies not only to debt as defined in point No. 9 of the IMF's Guidelines on Performance Criteria with Respect to External Debt (Decision No. 12274-(00/85) August 24, 2000) but also to commitments contracted or guaranteed for which value has not been received.²

¹ An electronic spreadsheet file that shows the relevant discount rates reported by the OECD (CIRRs) will be provided on a periodic basis by IMF staff. A web-based grant element calculator is available at <http://www.imf.org/concessional>.

² Point No. 9 of the IMF's guidelines reads as follows: "(a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase

(continued)

Previously contracted nonconcessional external debt that has been rescheduled will be excluded from the definition of “new debt” for the purposes of this performance criterion.

13. **Supporting material:** Details of all new commitments and government guarantees for external borrowing, with detailed explanations, will be provided by the MOF to the IMF on a monthly basis within two weeks of the end of each month. Data will be provided using actual exchange rates.

V. Continuous Performance Criterion on Nonaccumulation of External Arrears

14. **Definition:** During the period of the arrangement, the consolidated government and the NBG will not accumulate any new external payment arrears on debt service obligations to official creditors. Official external payment arrears are defined as unpaid debt service by the consolidated government and the NBG beyond 30 days after the due date. The performance criterion on nonaccumulation of external debt is continuous.

15. **Supporting material:** Details of official arrears accumulated on interest and principal payments to creditors will be reported to the IMF within one week from the date of the missed payment. Data will be provided using actual exchange rates.

Table 1. Program Exchange Rates

	Currency Name	Currency/US\$
SDR	Special Drawing Rights	0.65
GEL	Georgian lari	1.67
EUR	Euro	0.72

agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the leaser retains the title to the property. For the purpose of the Guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. (b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.”

Table 2. Projected Balance-of-Payments Support Financing 1/ (In million U.S. Dollars)			
	Balance-of-payments support loans and balance-of- payments support grants	Project loans and project grants	Conversion for government imports
December 31, 2009	278.4	188.1	257.1
March 31, 2010	0.0	44.7	62.5
June 30, 2010	0.0	89.3	125.0
September 30, 2010	94.9	156.3	187.5
December 31, 2010	151.7	237.5	250.0
1/ Cumulative from the beginning of the calendar year.			