Georgia: Letter of Intent, and Technical Memorandum of Understanding

December 22, 2010

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.
GEORGIA: LETTER OF INTENT

December 22, 2010

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, which was further augmented in August 2009. On July 9, 2010 the IMF’s Executive Board completed the sixth review of the SBA allowing for an immediate purchase of an amount equivalent to SDR 50 million. We are grateful for the assistance which the IMF provides to Georgia.

2. This letter of intent describes the economic policies that we plan to implement during 2010 and 2011. 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, July 30, 2009, November 25, 2009, February 25, 2010, and June 24, 2010.

Recent Economic Developments

Macroeconomic developments

3. From the beginning of 2010 economy started to recover. In the first half of 2010 real growth of the economy reached 6.5 percent. Significant growth was achieved in manufacturing (19.6%), transport (14.6%), trade (12.9%), and construction (12.5%).

4. Balance of payments data for the first half of 2010 show that exports of goods and services increased year-on-year by 25.3 percent and imports of goods and services increased by 13.7 percent; FDI inflows declined by 6.9 percent year-on-year. The current account deficit dropped to 9.5 percent of GDP in the first half of 2010, showing significant improvement relative to the same period of the previous years. In 2009, the current account deficit was 11.3 percent of GDP and 22.7 percent in 2008. In the second quarter of 2010, FDI increased compared to Q1, 2010.

5. As a result of recent developments in global commodity markets, particularly soaring wheat prices, prices of several key CPI basket components have also increased, which pushed inflation rate up to 10.5% year-to-year in November, 2010. Higher inflation figure, especially for food products lead to the increased inflation expectations. In order to bring
inflation back to target NBG has tightened monetary policy for the last four Monetary Policy Committee (MPC) meetings, increasing the refinancing rate from 5 to 7.5 percent. As part of the tightening policy, NBG also extended the coverage of reserve requirements to external borrowing of commercial banks.

6. Fiscal performance in the first three quarters of 2010 has been stronger than anticipated. Tax collection in Q1-3 2010 increased by 17.0 percent y-o-y in nominal terms (excluding one-off payments). Expenditures in the first three quarters of 2010 were contained at GEL 4988.0 million (general government, including capital expenditures), or 3 percent higher than in the same period of 2009 and in line with the program target. In all, the Q1-3 fiscal deficit reached 3.8 percent of the projected annual GDP, which is consistent with the program target.

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. Less frequent interventions have increased flexibility of the Lari. During the first half of the year, the Lari currency depreciated against the U.S. dollar by 11.5%, and has since appreciated by 6.4%.

8. In order to cover part of the FX financing gap of the private sector, in the first half of the year NBG sold at the FX market $321 million. Since June demand for FX has weakened and NBG has intervened occasionally to buy foreign exchange in the market. Since September exchange rate started to appreciate mainly due to mix of factors, including increase in non-resident FX deposits and market expectation. The depreciation of US Dollar vis-a-vis other major currencies contributed to its depreciation against Lari as well.

9. The banking sector continued its positive performance in the third quarter of 2010. Commercial banks’ net profits in the third quarter equaled GEL 58 million. In October Commercial banks’ net profits increased by GEL 26 million. Starting from May 2009, the volume of deposits has been growing steadily, posting a 44.9 percent annual growth in lari terms by end-October 2010. Bank lending to the economy has picked up, and credit to the economy has increased by 10.8 percent (6.5 percent excluding FX valuation effects) annually as of end-October. The major part of the increase in credit is attributed to lending in domestic currency. Banking sector remains highly capitalized; with the average capital adequacy ratio of 18.5 at end-October 2010. Since October NBG increased minimum liquidity ratio from 20% to 30%, to the level that existed before the crisis.

Structural reforms

10. To increase efficiency of monetary policy NBG has made a number of reforms, that include raising reserve requirements in local currency, activation of standing facilities, more active use of refinancing instrument and widening the base for reserve requirement by including borrowed funds by commercial banks in FX. NBG started to provide commercial banks with guaranteed access to refinancing loans against collateral at the interest linked to
the NBG’s key policy rate. The collateral base for refinancing loans is extended to include international bank guarantees and long term local currency loans.

11. 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, which we view as an important prerequisite to ensuring transparency, discipline, efficiency and accountability in the public finance area. The Reform Action Plan for 2010 is being successfully implemented. Consistently with the new budget code, by end-July 2010 cabinet endorsed the medium-term expenditure framework (Basic Data and Directions) that included expenditure ceilings applicable to the 2011 budget (structural benchmark under the program). Also, in October 2010 the cabinet endorsed guidelines for pilot Ministries to introduce a programmatic approach to budgeting, in line with the recommendations of the technical assistance from the IMF’s Fiscal Affairs Department (structural benchmark).

12. In pursuance of our reforms aimed at fostering a culture of compliance and streamlining tax and customs administration procedures, we seek achievement of further cost-efficiency and effectiveness gains within the Revenue Service of the Ministry of Finance, with a view to enhance business-friendliness of tax and customs processes and legislation and thus to promote private sector-led growth. In 2010, we have progressed significantly in establishing electronic information exchange system between banks and the Revenues Service, establishing a customs post-clearance audit, integrating all taxes into the e-filing system, introducing advance ruling in the customs and tax field, establishing the commodity expertise within the Revenue Service and the institute of personal tax agent, introducing electronic VAT invoices and one stop shop at the land customs crossing point for commercial vehicles, elaborating procedures manuals for Revenue Service officers, introducing web-based e-services, web applications, video help and centralized consultative correspondence via e-mails. The implementation of these reforms has enhanced efficiency and effectiveness in the use of public financial resources and shall contribute to the overall resilience of the economy both now and over the medium term.

Macroeconomic Outlook and Policies for the remainder of 2010 and for 2011

Macroeconomic outlook and risks

13. Our major macroeconomic challenge continues to be further increase in the pace of economic growth while promoting balance of payments adjustment. This will, of course, require increase of private capital inflows and domestic lending in support of investment projects. Our efforts to enhance macroeconomic stability concentrate on intensifying economic reforms, and achieving a sustainable fiscal and external balance as quickly as possible.
14. Economic growth remains strong, in the first two quarters of 2010 economy increased by 3.9 and 8.7 percent respectively. Overall in the 2010 real GDP growth is projected at 5.5 – 6.0 percent per annum. Growth is expected to be strong in 2011, at 4.5 percent.

15. The current account deficit for 2010 is expected to be around 11.6 percent of GDP. Exports and imports of goods and services are projected to increase by 18.5 percent and 14.3 percent, respectively. Worker remittances are expected to increase by around 26.9 percent for the year. We expect the recovery in private capital inflows to accelerate in the second half of 2010. Conservatively, we project FDI inflows of about US$603 million in 2010, slightly less than in 2009. Overall, gross reserves in 2010 are expected to increase by about US$92 million. In 2011, the current account deficit would increase to 12.6 percent of GDP, as the slowdown in export growth (which would grow by 11.5 percent) would be more marked than that of imports (which would grow by 9.2 percent). Capital flows would increase substantially, contributing to a further increase in gross international reserves of about $413 million.

16. There are substantial risks to this outlook, notably related to the uncertainty surrounding future capital inflows. In particular, a failure of FDI to resume could lower growth and reopen an external financing gap. On the upside, based on recent inflation and appreciation pressures, there are also risks of overheating, which could be further fueled in the future by stronger-than-expected capital inflows.

Policies

17. We consider that sound fiscal position is critical for the sustainability of the recovery and also to preserve the stability of Georgia’s external accounts. We are therefore committed to the deficit reduction. Based on further expenditure containment, an expected recovery of tax revenues owing to sustained GDP growth as well as the revenue measures taken in 2010 and 2011, we are committed to steady reductions in the deficit to 2–3 percent of GDP by 2013. Moreover, in order to increase policy flexibility in the event of adverse economic developments, we have introduced an escape clause in the constitutional amendment requiring that tax increases be subject to referendums. The conditions under which the referendum requirement would be suspended will be defined by the Economic Freedom Act, which will be resubmitted to parliament in 2011. The constitutional amendment, which was adopted on December 15, 2010, will only come into effect once the Economic Freedom Act is also approved.

18. In 2010, spending is expected to be in line with what was agreed at the time of the sixth review, except for the on-lending operation which is described below, in ¶28. Revenues are likely to be lower than projected, reflecting a shortfall in budget-support grants of GEL 56 million. The shortfall is due to the late disbursement of budget grants, which we now expect to come in 2011. Tax revenue projections remain unchanged, but other domestic revenues could make up for the shortfall in budget grants. As a result of these two factors
(on-lending operation and shortfall in budget grants), the deficit is anticipated to be at most GEL 156 million higher than envisaged at the time of the sixth review (GEL 1,397 million, compared with GEL 1,241 million). However, the deficit would decline significantly in 2010, to 6.8 percent of GDP from 9.2 percent of GDP in 2009.

19. In 2011, we will pursue our fiscal consolidation efforts so as to reduce demand pressures in the economy, while facilitating the return to international capital markets through strengthening medium-term fiscal sustainability. Consistent with these objectives, the fiscal deficit will be reduced further to 4.3 percent of GDP. This reduction would reflect measures aimed at curbing spending, such as restraining public sector wage bill in nominal terms, reduction of defense budget, stable education spending in nominal terms, no increase in pensions and no change in thresholds of social assistance schemes. The tax-to-GDP ratio is projected to increase relative to 2010 owing to the full year effect of the measures taken in 2010 (excises on telecommunications and certain beverages), as well as the new measures coming into effect in 2011 (harmonization of personal income tax rates and VAT on public health services).

20. Monetary policy will aim at bringing back year-on-year inflation towards our 6-percent target by end-2011, while fostering investors’ confidence through increases in gross and net international reserves. More specifically, we consider that credit growth of 15 to 20 percent is consistent with noninflationary growth. To meet these objectives, the NBG has already raised the policy rates and considers increasing reserve requirements on foreign exchange deposits and external borrowing. The latter should also contribute to strengthening the ongoing dedollarization process. The need for additional tightening will be assessed based on inflation, credit, and foreign exchange market developments.

21. The exchange rate policy will remain flexible. Within the aforementioned limit, the NBG will intervene only to smooth extreme volatility, to counter speculative pressures and if too fast and too large depreciation threatens financial stability. Intervention will also be constrained by our objective to increase net international reserves in 2011 to around $885 million by end-2011. Should persistent appreciation pressures materialize, we will address them through a tightening of the fiscal stance. Should external developments prove more favorable than currently projected, we stand ready to raise the NIR targets for future reviews, so as to strengthen our exit strategy from official balance of payments support.

22. To further strengthen regulatory disincentive for lending in foreign currency and taking into account recent rapid recovery, the NBG is considering increasing the weight for loans denominated in foreign currency in risk-weighted assets from 1.5 to 1.75. In line with changes in legislation, which enable the supervisor to conduct risk-based supervision, a reorganization process is under way to enable the NBG to use more effectively its resources for risk based supervision. The move toward a risk based framework is done gradually, to minimize regulatory risk for the industry and enable smooth transition towards the new regulatory framework.
23. To facilitate reduction of information costs and promote the cross product and cross bank comparability of the financial products NBG plans to implement consumer financial protection framework in 2011. In line with short term objectives, Georgian banks will be obliged to standardize retail contracts in more understandable way, disclosing all necessary information with new features like effective annual percentage rate and other vital information for informed decision making. A special unit is planned to be created inside NBG that will be in charge of monitoring and strengthening consumer protection.

**Structural reforms**

24. 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. NBG has signed the contract on system supply and implementation with WallstreetSystems, leading portfolio management system supplier who has over 30 central banks clients around the world. The system is expected to become fully operational by end of April 2011.

25. To bring our official statistics in line with international standards, we improved legal framework and reorganized the former State Department of Statistics (new title—Geostat). New Law on State Statistics strengthens the independence of the Geostat and ensures the sustainable production of official statistics. On May 17, 2010, we subscribed to the IMF’s Special Data Dissemination Standard (SDDS), with a view to enhancing the availability of timely and comprehensive statistics provided to the public.

26. Based on the higher than projected budget support disbursements from IFIs in 2010, we reduced the Government’s use of IMF financing for the budget. Accordingly, the purchase that was made upon completion of the sixth review was the last purchase for budget support in 2010.

27. We have implemented the recommendations provided in the recent update of the Safeguards Assessment Report. In particular:

- The new Audit Committee Charter was elaborated based on the best international practice.
- The Audit Committee composition was modified and includes only non-executive members of the Board.
- The oversight function of the Audit Committee was strengthened.
- The assessment of internal audit activities for compliance with the International Standards for Professional Practice of Internal Auditing and The IIA’s Code of Ethics was conducted.
The Internal Audit Service reviewed operations of the newly implemented core banking system.

The internal audit of the new RTGS and reserve management systems will be carried out following their deployment.

**Program Monitoring**

28. We expect all end-December performance criteria under the Stand-By Arrangement to be met, with the exception of the general government deficit and total expenditure targets, owing to the delayed disbursement of budget grants in the amount of GEL 56 million, which we expect to receive in 2011, and the early disbursement by KfW-EBRD-EIB (and on-lending by the government) of a GEL 100-million amount under the high voltage power transmission project loan. These will cause deficit and spending overruns of about GEL 156 million (or 0.75 percent of GDP) and GEL 100 million (or 0.5 percent of GDP), respectively, relative to the program targets. Even though the delay in the disbursement of budget grants does not affect the underlying fiscal adjustment commitment, we expect that other revenues will compensate in large part for this shortfall in 2010. Similarly, we do not consider that the overruns related to the early disbursement of KfW-EBRD-EIB’s project loan, and related on-lending by the government, affect the underlying fiscal adjustment. Moreover this operation has a zero net expected impact on public finances, since it is equivalent to guaranteeing a loan to a commercially viable public enterprise. As such we do not consider it necessary or appropriate to adjust the government’s fiscal position in response to changes in the disbursement schedule of this loan. To avoid such problems going forward, we request that the fiscal deficit and general government expenditure targets be adjusted for any changes in the timing of disbursements under this loan relative to our expectations as reflected in the program deficit and expenditure ceilings.

29. Therefore, based on our performance under the program, we request waivers of nonobservance of the end-December 2010 PCs on the cash deficit of the general government and on the general government expenditures, a rephasing of purchases, the establishment of end-March 2011 PCs, and the completion of the seventh and eighth Reviews. 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.

30. The attached Table 1 establishes end-March 2011 PCs on the fiscal deficit, NIR, NDA, and total government expenditures, as well as an end-March 2011 indicative target on external public debt. We request that the ninth review be based on end-March 2011 performance criteria and be scheduled for completion by June 14, 2011.

31. 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
GEORGIA: REVISED TECHNICAL MEMORANDUM OF UNDERSTANDING
December 22, 2010

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 June 24, 2010.

2. These performance criteria and indicative targets are reported in Tables 1 attached to the Letter of Intent dated December 22, 2010. 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.

I. GENERAL GOVERNMENT AND THE PUBLIC SECTOR

3. **Definition:** The general government is defined as the central government, local governments, and extra-budgetary funds. The public sector consists of the general 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 of the general government within two weeks of the end of each month, and monthly expenditures and arrears of the central government within four weeks of the end of each month. In addition, the Treasury will provide, on a daily basis, the cash balances in the accounts of the general government as of the previous business day.

II. QUANTITATIVE PERFORMANCE CRITERIA, INDICATIVE TARGETS, AND CONTINUOUS PERFORMANCE CRITERIA: DEFINITIONS AND REPORTING STANDARDS

A. Quantitative Performance Criteria and Indicative Targets

5. The quantitative performance criteria and indicative targets specified in Table 1 attached to the Letter of Intent are:

   - a performance criterion (ceiling) on the cash deficit of the general government;
   - a performance criterion (ceiling) on the general government expenditures;
   - a performance criterion (floor) on net international reserves (NIR) of the NBG;
   - a performance criterion (ceiling) on net domestic assets (NDA) of the NBG;
   - a continuous performance criterion (zero ceiling) on the accumulation of external arrears; and
• an indicative target (ceiling) on the contracting and guaranteeing of new total external
debt by the public sector.

The performance criteria and the indicative target are monitored quarterly on a
cumulative basis from the beginning of the calendar year (with the exception of the NIR and
NDA targets, which are monitored in terms of stock), while the continuous performance
criterion is monitored on a continuous basis.

B. Ceiling on the Cash Deficit of the General Government

6. Definition: The cash deficit of the general 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 general
government which will be defined as follows:

(i) Net lending (borrowing net of repayments) provided by commercial banks to
the general government plus the use of deposits held by the general 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 general 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
general government plus the use of deposits of the general 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 general government and purchased by the NBG (for example,
T-Bills) are also included in domestic financing.

(iii) Any securities issued by the general 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 general
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 general government abroad, minus amortization. Amortization includes all external debt-related payments of principal by the general 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.

7. **Adjustor:**

- The end-March 2011 ceiling on the cash deficit of the general government will be adjusted upward/downward by 100 percent for any excess/shortfall in on-lending by the government of the disbursements of the Black Sea Transmission Network project loans relative to the projected GEL 40 million.

8. **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 of the general government 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.

- 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.

**C. Ceiling on the General Government Expenditures**

9. **Definition:** General government expenditures comprise all current and capital expenditures as well as net lending: (i) current expenditures comprise compensation of employees, use of goods and services, subsidies, grants, social expenses, other expenses, other account payables and domestic and external interest payments; (ii) capital expenditures include projects financed by foreign loans and grants; (iii) net lending is defined as lending by, minus repayments to, the general government.
10. **Adjustor:**

- The end-March 2011 ceiling on the general government expenditures will be adjusted upward/downward by 100 percent for any excess/shortfall in on-lending by the government of the disbursements of the Black Sea Transmission Network project loans relative to the projected GEL 40 million.

11. **Supporting material:** Data for monitoring expenditures will be derived from the accounts of the general government covered under the ceiling (based on state, local authority, and autonomous republics budgets). The ministry of finance is responsible for such reporting according to the above definition. Data on general government expenditures should be reported within four weeks after the end of the quarter.

**D. Floor on the Net International Reserves of the NBG**

12. **Definition:** 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 in paragraph 2 above.

13. **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 by 100 percent for any shortfall in the amount of conversion for government imports relative to the projected amounts presented in Table 2.
• (d) upward by 100 percent for the amount of any Eurobond issuance, net of cost of redemption of previously issued Eurobonds.

14. **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 general 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 foreign exchange cash flow table (which include details of inflows, outflows, and net international reserves) on a weekly basis within three working days following the end of the week.

E. **Ceiling on Net Domestic Assets of the NBG**

15. **Definition:** Net domestic assets of the NBG are defined as the difference between reserve money and NIR as defined above in paragraph 10. Therefore, the ceiling on NDA is defined as projected reserve money (as defined in Table 3) minus the target NIR.

16. **Adjustors:**

The ceiling on the NDA of the NBG will be adjusted:

- (a) upward/downward by 50 percent for any shortfall/excess 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 shortfall/excess 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) downward by 100 percent for any shortfall in the amount of conversion for government imports relative to the projected amounts presented in Table 2.
- (d) downward by 100 percent for the amount of any Eurobond issuance, net of cost of redemption of previously issued Eurobonds.

17. **Supporting material:** The NBG will provide to the IMF its balance sheet, which includes data on reserve money and net domestic assets on a weekly basis within three working days following the end of the week. Data will be provided using both actual and program exchange rates.
F. Ceiling on Contracting or Guaranteeing of New External Debt by the Public Sector

18. **Definition:** External debt is defined as set forth in point No. 9 of the Executive Board Decision No. 6230-(79/140), as revised on August 31, 2009 (Decision No. 14416-(09/91)).

External debt is defined as debt contracted by the public sector with nonresidents other than the IMF. Previously disbursed external debt that has been rescheduled will be excluded from the definition of “new debt” for the purposes of this performance criterion.

19. **Adjustor:**

- The end-March 2011 ceiling on contracting or guaranteeing of new external debt by the public sector will be adjusted upward by 100 percent for the amount of any Eurobond issuance.

20. **Supporting material:** Details of all new contracted debt and government guarantees for external borrowing, with detailed explanations, will be provided by the MOF to the IMF on a quarterly basis within thirty days of the end of each quarter. Data will be provided using actual exchange rates.

G. Continuous Performance Criterion on Accumulation of External Arrears

21. **Definition:** External arrears are defined as unpaid debt service by the public sector to official creditors beyond 30 days after the due date.

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1 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 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.”
22. **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.

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1/ Cumulative from the beginning of the calendar year.

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