

## International Monetary Fund

[Kyrgyz Republic](#) and  
the IMF

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

**Press Release:**  
[IMF Executive Board  
Completes First  
Review Under the  
Extended Credit  
Facility for the  
Kyrgyz Republic.  
Approves US\\$14.8  
Million Disbursement](#)  
December 7, 2011

November 17, 2011

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## KYRGYZ REPUBLIC: LETTER OF INTENT

November 17, 2011

Ms. Christine Lagarde  
Managing Director  
International Monetary Fund  
700 19<sup>th</sup> Street, N.W.  
Washington, DC 20431

Dear Ms. Lagarde:

On June 20, 2011, the Executive Board of the International Monetary Fund (IMF) approved an arrangement under the Extended Credit Facility (ECF) for the Kyrgyz Republic. We are grateful to the IMF for its continued support of our economic development and reform program.

The Kyrgyz economy is recovering strongly from the last year's political turmoil and economic downturn. Real GDP grew by 8.7 percent year-on-year over the first nine months of 2011 as a result of continued political stability and a strong rebound in neighboring countries. Consumer price inflation is now on a solid downward path with end-October 2011 inflation at 9.5 percent year-on-year.

We have made considerable progress in our reform efforts under the ECF-supported program. All end-June quantitative performance criteria and indicative targets have been met. Implementation of the structural reform agenda is progressing in line with our commitments outlined in the Letter of Intent (LOI) and the Memorandum of Economic and Financial Policies (MEFP) dated June 2, 2011. The financial audit of Zalkar bank conducted by KPMG indicated that the bank is solvent. Consistent with our program commitments, we are preparing to sell it to a reputable bank through a transparent and competitive privatization process. The forensic audit of the Kyrgyz Republic Development Fund conducted by PWC, which revealed a lack of governance and transparency, has been published. The liquidation of the Special Bank Refinancing Fund has also been completed. We submitted to parliament amendments to the tax and customs codes and issued the relevant government resolutions to raise additional revenues. We have also strengthened tax administration and adopted the measures as outlined in the MEFP. The government resolution on the procedures for submission of the budgets of the ten largest state-owned enterprises (SOEs) has been adopted.

In light of this progress and our continued commitment to the program, we are requesting the completion of the first review under the ECF-supported program and the second

disbursement in the amount of SDR 9.514 million (about US\$15 million). We are also requesting modification of end-December 2011 performance criteria to accommodate the effects of higher-than-expected economic growth and foreign exchange inflows, as well as the advancement of, and successful renegotiation of terms on, foreign-financed energy infrastructure projects. The government believes that the policies set forth in our LOI and MEFP dated June 2, 2011, supplemented with this LOI and modified quantitative performance and updated structural benchmarks criteria (see Tables 1 and 2, respectively) are adequate to meet the objectives of our economic program, but stands ready to take additional measures as needed. We will consult with Fund staff on such measures and in advance of any revision to policies contained in the MEFP and updated LOI, in accordance with the Fund's policies.

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

## **I. POLICIES FOR THE REMAINDER OF THE YEAR AND BEYOND**

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

**2. Continued economic recovery and macroeconomic stability remain the cornerstone of our Fund-supported program.** In particular:

- We expect real GDP to grow by about 7 percent this year and 5½ percent on average during 2012–14 on the back of continued political stability and strong growth in agriculture, trade and construction.
- Continued tight monetary policy is needed to help reduce underlying inflation in 2011. In 2012–14 inflation will stabilize at about 7½ percent in 2013–14, largely reflecting receding international food and fuel prices, and prudent fiscal and monetary policies.
- The general government deficit, excluding foreign-financed energy investment projects, will be brought down to 3.8 percent of GDP by 2014, primarily on account of prudent fiscal policies and tax administration and public financial management measures.
- The current account deficit will remain high in 2011, largely as a result of high import prices, but will gradually decline over the medium term in line with lower fuel prices, strong export-oriented growth, and fiscal consolidation. However, large energy infrastructure projects, which will have a significant import component, will prevent the current account deficit from declining faster.

**3. With the assistance of our development partners and in line with our commitments (see MEFP ¶7) we are finalizing a Medium Term Development Strategy (MTDS/PRSP).** The MTDS/PRSP will be circulated to the IMF Executive Board with the

documents for the second review under the program. The main goal of the reforms under the MTDS/PRSP is to build up an effective system of the executive aimed at economic development, poverty reduction, and improvement in the business climate. The MTDS/PRSP objectives are to (i) reduce the fiscal deficit; (ii) strengthen public sector asset management, (iii) implement national investment projects, and (iv) improve the business environment. The strategy also envisions a reduction in the number of public sector employees by 20 percent.

**4. We recognize that the fragile global economic environment poses risks to the Kyrgyz economy, primarily through a decline in external demand, commodity export prices, and remittances.** In this regard, our efforts under the ECF-supported program will continue to be geared toward rebuilding policy buffers to mitigate the effects of potential adverse shocks. Against this background, we established the Macroeconomic and Investment Policy Coordination Council under the Government of the Kyrgyz Republic aimed at enhancing coordination of economic policies and designing possible policy responses to adverse scenarios.

#### **A. Fiscal policy**

**5. Despite large increases in wages and pensions in 2011, the fiscal balance, excluding foreign-financed energy infrastructure projects, will not worsen compared to the program.** The wage and pension increases were necessary to restore public confidence in government, alleviate the conditions of those who suffered during the 2010 turmoil, and peacefully conduct elections. In addition, fiscal spending has been supportive of the economic recovery. Tax revenue collections have been strong this year due to continued improvements in tax administration, a solid economic recovery and high gold prices, allowing us to offset shortfalls in other revenues and finance priority outlays. To compensate for the delayed privatizations of KyrgyzTelecom and MegaCom, we will use treasury savings in central bank accounts. This delay will allow us to better prepare an open and competitive bidding process and maximize the sales proceeds in a more stable political environment. We have completed all formal requirements for receiving budget support from the EURASEC Anti-Crisis Fund in the amount of US\$106.7 million (by end-2011).

**6. Recognizing the need to rebuild fiscal policy buffers and given the stronger-than-expected economic recovery, we will launch a more ambitious fiscal consolidation than envisaged earlier.** We have adopted tax policy and administration measures (see MEFP ¶13) and will continue to improve tax administration with Fund technical assistance, which will help ensure strong tax revenue performance. While maintaining an adequate level of social spending, the planned reduction in the size of civil service, nominal wage restraint and more prudent expenditure policies will generate substantial fiscal savings. This will allow us to reduce the fiscal deficit excluding foreign-financed energy infrastructure projects to 3.8 percent of GDP by 2014, 0.6 percent of GDP lower than previously targeted (see MEFP ¶9). In light of the uncertain global economic outlook, we will exercise caution in fiscal policy implementation and prepare

appropriate contingency measures. To increase the efficiency of public enterprises, we intend to launch a comprehensive privatization program, which will become an important source of financing over the medium term. We will continue to strengthen monitoring of the remaining state-owned companies' finances to increase dividends. Moreover, developing the domestic debt market under the leadership of the ministry of finance and with the participation of other stakeholders will be instrumental to decrease reliance on external financing.

**7. As part of our governance reform agenda, we will advance public financial management (PFM) reform and adopt recommendations of the recently completed Fund technical assistance mission.** We will establish a high-level committee for coordination of PFM reforms that will be chaired by the Minister of Finance. To increase the efficiency of government we will revamp the organizational structure of the ministry of finance in line with Fund technical assistance recommendations. We will also issue an instruction for introducing, through the treasury management information system (TMIS), a commitment control system based on cash limits, and adopt a government decree to extend treasury coverage to the Social Fund (structural benchmarks). We also intend to reform the system of public procurement, which is an area of high fiscal risk, and could generate significant additional fiscal savings.

**8. The advancement of foreign-financed energy infrastructure projects, originally planned to begin in 2012, was critical to ensure the country's energy security.** We have successfully renegotiated the loan terms of the first phase of the project in the amount of US\$208 million to make it concessional. We will approach our creditor to ensure that the borrowing terms for the second phase of the project are also on concessional terms.

**9. We remain committed to enhancing good governance and transparency.** In this context, we will ensure that all of our development plans are consistent with these principles. We are currently contemplating the establishment of a development bank that would help to develop affordable (i) mortgage lending; (ii) leasing for agriculture; and (iii) loans for farmers and entrepreneurs. We will ensure that any such development institution is fully consistent with our ECF-supported program targets and objectives. Once we have developed a concrete proposal, we will consult with IMF staff and other development partners before taking any further action in this regard (see MEFP ¶25 and ¶30).

## **B. Monetary, exchange rate and financial sector policies**

**10. In light of wage and pension increases, which will put pressure on inflation, continued tight monetary policy is needed.** This will mitigate the impact of continued strong foreign exchange inflows and the expected concentration of fiscal spending in the remainder of the year. We will ensure close coordination between the fiscal and monetary authorities and continue to intervene in the foreign exchange market only to smooth excessive volatility.

**11. Continued strong actions will allow us to address the remaining banking sector vulnerabilities.**

- Following completion of the financial audit of Zalkar Bank, which found it to be solvent, we have initiated its sale to a reputable bank through a transparent and competitive process in line with our commitment. If the privatization is not successful within the allotted timeframe, the assets and liabilities will be disposed of in a transparent and competitive tender process to interested investors within a reasonable timeframe (see MEFP ¶23).
- Recognizing the aggressive expansion of the systemically important state-owned SSC bank, we have stepped up its monitoring. We acknowledge that the capital injection through August 2011 by the ministry of finance is sufficient this year to allow the bank to extend loans to the entrepreneurs who suffered damage during the June 2010 events (see MEFP ¶23). Going forward, we will discuss with IMF staff modalities of how such programs could be implemented without jeopardizing the soundness of the bank and the stability of the financial system. Moreover, we will ensure that the bank's growth is effectively monitored and controlled (sustainable), including through the application of appropriate supervisory measures.
- Resolving the four banks under conservatorship has been impeded by pending court cases. The legal reforms envisaged under the ECF-supported program, once adopted, will strengthen the bank resolution framework and thereby better equip the central bank to effectively deal with problem banks in the future.

**C. Safeguards assessment**

**12. We are committed to implement the recommendations of the recent NBKR safeguards assessment update.** ECF structural conditionality to develop a new Banking Code, including the Law on the NBKR, provides an opportunity to establish the supremacy of that law over other laws and regulations that might affect the NBKR, establish the NBKR's sole authority to hold and manage official foreign reserves, and extend the term of engagement of the NBKR external auditors (see structural benchmarks). We will also strengthen safeguards through continuous professional education of NBKR internal audit staff.

**D. Program monitoring**

**13. The ECF-supported program will continue to be monitored through quantitative performance criteria, indicative targets, and structural benchmarks.** Quantitative performance criteria and indicative targets for December 2011, March 2012, June 2012, September 2012, and December 2012 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 second

and third reviews are expected to take place by May 15, 2012 and November 15, 2012, respectively. The understandings between the Kyrgyz authorities and IMF staff regarding the quantitative performance criteria and structural benchmarks described in this LOI and reporting requirements are further specified in the LOI, MEFP, and technical memorandum of understanding (TMU) dated June 2, 2011 as updated in the attached.

Sincerely yours,

/s/

Almazbek Atambaev  
Prime Minister of the Kyrgyz Republic

/s/

Melis Mambetjanov  
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, December 2011–December 2012  
(In millions of soms, unless otherwise indicated; eop)

|   | 2011      |         | 2012      |         |           |         |           |          |
|---|-----------|---------|-----------|---------|-----------|---------|-----------|----------|
|   | December  |         | March     |         | June      |         | September | December |
|   | QPC       |         | IT        |         | IT        | QPC     | IT        | IT       |
|   | CR/11/155 | Revised | CR/11/155 | Revised | CR/11/155 |         |           |          |
| <i>Quantitative performance criteria 1/</i>   |           |         |           |         |           |         |           |          |
| 1. Floor on net international reserves of the NBKR<br>(eop stock, in millions of U.S. dollars)  | 1,617     | 1,694   | 1,637     | 1,633   | 1,657     | 1,678   | 1,742     | 1,861    |
| 2. Ceiling on net domestic assets of the NBKR (eop stock)   | -11,327   | -12,384 | -11,681   | -11,868 | -10,761   | -10,310 | -9,447    | -9,208   |
| 3. Ceiling on cumulative overall cash deficit of the general government 2/  | 19,111    | 21,588  | -1,108    | 477     | 7,188     | 6,502   | 12,692    | 20,191   |
| 4. Ceiling on contracting or guaranteeing of new nonconcessional external debt<br>by public sector (continuous, in millions of U.S. dollars) 3/               | 450       | 250     | 450       | 250     | 450       | 250     | 250       | 250      |
| 5. Ceiling on accumulation of new external payment arrears<br>(continuous, in millions of U.S. dollars)   | 0         | 0       | 0         | 0       | 0         | 0       | 0         | 0        |
| <i>Indicative Targets 1/</i>  |           |         |           |         |           |         |           |          |
| 1. Ceiling on reserve money   | 56,571    | 59,116  | 57,155    | 56,772  | 59,014    | 60,453  | 64,323    | 70,175   |
| 2. Cumulative floor on state government tax collections 2/  | 49,119    | 50,823  | 15,299    | 12,611  | 31,789    | 26,861  | 42,378    | 60,128   |
| 3. Floor on cumulative state government spending on targeted social assistance,<br>Unified Monthly Benefit (UMB) and Monthly Social Benefit (MSB) programs 2/ | 2,800     | 2,800   | 772       | 722     | 1,544     | 1,444   | 2,166     | 2,888    |

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

1/ As defined in the TMU.

2/ Cumulative from the beginning of the year.

3/ External debt contracted or guaranteed with a grant element less than 35 percent. The limit is cumulative from end-December 2010 and tied to energy infrastructure projects only. Should the total borrowings for these projects be less than US\$250 million, the remaining space cannot be used to borrow for other projects. While exact terms are still under negotiation, the grant element on these loans will not be lower than 30 percent.



Table 2. Kyrgyz Republic: Structural Benchmarks under the Extended Credit Facility for 2011 and 2012

| Measure  | Timing              | Macroeconomic Rationale   |
|--|---------------------|---|
| <b>Structural Benchmarks</b>   |                     |   |
| <b>I. FISCAL POLICY</b>  |                     |   |
| <b>Strengthen public financial management by:</b>  |                     |   |
| Establishing a high-level committee for coordination of PFM reforms chaired by the Minister of Finance   | End-December, 2011  | Strengthen the management of PFM reforms via proper prioritization, sequencing, and coordination of reform measures.  |
| Adopting a decree to extend treasury coverage to the remaining extra-budgetary funds, including the Social Fund.   | End-March, 2012     | Strengthen the reporting on general government finances.  |
| Developing and adopting a medium-term debt management strategy.  | End-March, 2012     | Strengthen macroeconomic management and ensure debt sustainability.   |
| Adopting an instruction for introducing, through TMIS, a commitment control system based on cash limits.   | End-July, 2012      | Strengthen the treasury's ability to check commitments against authorized limits, register commitments and enhance control and recording of cash spending requests.                           |
| Reforming the ministry of finance by revamping its organizational structure consistent with Fund TA advice.  | End-September, 2012 | Increase the efficiency of government and public financial management, in particular.   |
| <b>II. FINANCIAL SECTOR</b>  |                     |   |
| Based on the audit results, which found the bank to be solvent, resolve Zalkar Bank as follows:  |                     | Complete resolution of the AUB/Zalkar.  |
| a) sell to a reputable bank, or  | End-February, 2012  |   |
| b) if no acquirer is found, initiate disposal of assets and liabilities to interested investors.   | End-February, 2012  |   |
| Submit to the Parliament a draft Banking Code (including Law on Banks and Banking Activity, Law on Conservatorship, Liquidation, and Bankruptcy of Banks, Law on NBKR) consistent with Fund TA advice, to (i) strengthen the legal framework for early intervention and resolution of problem banks; (ii) limit the scope of judicial review of actions taken by the NBKR; (iii) enhance legal protection for NBKR staff and agents. | End-April, 2012     | Strengthen bank resolution framework and supervisory independence of the NBKR. This will also ensure the supremacy of the NBKR law over other laws and regulations that might affect the NBKR |
| 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.   | End-April, 2012     | Strengthen institutional and financial autonomy of the NBKR.  |
| Develop a sales strategy for the SSC bank.   | End-April, 2012     | Reduce the government's involvement in the commercial banking activity.   |

## KYRGYZ REPUBLIC: REVISED TECHNICAL MEMORANDUM OF UNDERSTANDING

November 17, 2011

### I. INTRODUCTION

1. This memorandum defines the quantitative performance criteria, indicative targets and adjusters, 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 17, 2011 reflect the understandings on quantitative performance criteria reached between the authorities of the Kyrgyz Republic and staff of the IMF.

### II. QUANTITATIVE PERFORMANCE CRITERIA

#### A. Definitions and concepts

2. **Test dates.** Quantitative performance criteria are set semi-annually starting June 30, 2011 through December 31, 2012, and are to be met at the end of each period.
3. **National Bank of the Kyrgyz Republic (NBKR).** The NBKR is the central bank of the country and is responsible for the formulation and implementation of monetary policy, bank supervision, and the payment system. For the purpose of the program, the NBKR includes all its central and regional offices.
4. **Public sector.** For the purpose of the program, the public sector comprises the general government, the NBKR, and 10 largest nonfinancial public enterprises (enterprises and agencies in which the government owns more than 50 percent of the shares, but which are not consolidated in the budget, as listed in Table 1). The State budget comprises central and local government budgets. The general government budget includes the State, Social Fund and the Development Fund (hereinafter, KRDF) budgets.<sup>1</sup>
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.

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<sup>1</sup> KRDF will be included for the duration of its existence.

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

8. **Concessional and nonconcessional debt.** Concessional debt is defined as debt with a grant element equivalent of 35 percent or more. The grant element of a debt is the difference between the present value (PV) of the debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more). The debt refers also to commitments contracted or guaranteed and for which value has not been received. The calculation of concessional debt 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<sup>2</sup>

#### *Definitions*

10. **Net international reserves (NIR) of the NBKR.** The floor on NIR will be calculated as the difference between total international reserve assets and total international reserve liabilities of the NBKR in convertible currencies. Total international reserve assets of the NBKR are defined as the NBKR holdings of monetary gold, holdings of SDRs, reserve position in the IMF, and any holdings of convertible foreign currencies in cash or with foreign banks, and debt instruments issued by nonresidents that are liquid. Accrued interest on deposits, loans, and debt securities are included in reserve assets and liabilities, correspondingly. Reserve assets pledged as collateral or otherwise encumbered, capital subscriptions in foreign financial institutions, and illiquid assets of the NBKR are excluded. Also excluded are net forward positions, defined as the difference between the face value of foreign-currency denominated NBKR off-balance sheet claims on nonresidents and foreign currency obligations to both residents and nonresidents. Total international reserve liabilities of the NBKR in convertible currencies are defined as the sum of Kyrgyz Republic's outstanding liabilities to the IMF and other convertible currency liabilities to nonresidents with an original maturity of up to and including one year. NIR is not affected when foreign assets are received by the NBKR through foreign currency swaps with resident financial institutions. Total international reserves and NIR decline with the provision of foreign assets by the NBKR through foreign currency swaps with resident financial institutions.<sup>3</sup> 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\$1,526 million on December 31, 2010.

11. **Net foreign assets (NFA) of the NBKR.** NFA consist of net international reserve assets plus other net foreign assets, including the medium- and long-term foreign obligations of the NBKR, other net claims on CIS countries, reserve assets pledged as collateral or

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<sup>2</sup> Convertible currencies are defined as currencies that are freely usable for settlements of international transactions.

<sup>3</sup> In case of a foreign currency swap that involves receipt of foreign currency by the NBKR and transfer of local currency to a resident financial institution, total international reserves increase, NIR is unchanged, and net claims on domestic banks in soms increase. In case of a foreign currency swap that involves transfer of foreign currency by the NBKR and receipt of local currency from a resident financial institution, total international assets and NIR decline, while the NBKR net claims on resident banks remain unchanged.

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

### *Adjustors*

15. The ceiling on NDA will be adjusted downward/upward to the full extent of any excess/shortfall in program grants and program loans, as given in Table 3 and downward/upward to the full extent that amortization and interest payments of public external debt is less/more than the amortization and interest payments given in Table 3.

### **Ceiling on the cumulative overall cash deficit of the general government**

#### *Definitions*

16. **The overall cash deficit of the general government** will be measured from the financing side (below the line) at current exchange rates and will be defined as the sum of:

- a) the change in the stock of net claims of the domestic banking system and nonfinancial institutions and households on the general government. The change in the stock of net claims of the domestic banking system on the general government is defined as the change in the stock of the banking system claims on the general government, less the change in the stock of all deposits of the general government with the banking system. The claims of the banking system on the general government include: bank

- loans to the general government; any securities issued by the general government and held by domestic banks, with the exception of those issued in relation with bank rescue operations; and overdrafts on the current accounts of the general government with banks;
- b) the change in the stock of net claims of foreign governments, banking systems, and nonfinancial institutions and households on the general government;
  - c) net privatization receipts, i.e. any new sales net of purchases of shares;
  - d) net foreign loans disbursed to the general government for budgetary support; and
  - e) net foreign loans disbursed to the general government for PIP financing.
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 by the public sector (continuous quantitative performance criteria)**

### *Definitions*

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

- a) For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

- i. loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
  - ii. suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and
  - iii. leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.
- b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.
20. For program purposes, external debt is defined based on the residency of the creditor.
21. **External debt ceilings** apply to the contracting or guaranteeing by the public sector (as defined in section II. A., paragraph 4) of nonconcessional external debt, i.e. external debt with grant element of less than 35 percent (see section II. A., paragraph 7), except normal short-term import-related credits and NBKR international reserve liabilities. The current nonzero ceiling (US\$250 million) is tied to infrastructure projects in the energy sector. Should the total borrowings for these projects be less than US\$250 million, the remaining space cannot be used to borrow for other projects. The grant element on these loans will not be lower than 30 percent.
22. **Exclusions from the external debt limits.** Disbursements by the IMF are excluded from the ceilings on external debt. Also excluded from external debt ceilings is the contracting or guaranteeing of new external debt that constitutes a rescheduling or refinancing of existing external debt on the terms more favorable to the debtor.
23. **Guarantees.** For program purposes, the guarantee of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the

debtor (involving payments in cash or in kind), or from any implicit legal or contractual obligation of the public sector to finance partially or in full a shortfall incurred by the debtor.

24. **New external payments arrears.** 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 (Table 4). In particular, the government and the NBKR will provide the following specific information.<sup>4</sup>

#### **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

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<sup>4</sup> Any correction or revisions to data previously reported should be clearly indicated and documented along with the reasons for the revision.



reserves of the NBKR; medium- and long-term liabilities; the net domestic assets of the NBKR; net credit from the NBKR to the general government, disaggregated by state government and the KRDF; net credit from the NBKR to commercial banks; net claims to other financial corporations; other items net; and reserve money. The balance sheet will be provided using both actual and program exchange rates. The above information will be provided to the IMF Resident Representative and/or transmitted by e-mail to the IMF.

### **B. Monetary survey**

30. Monthly banking system data, in the form of monetary surveys of the banking sector and other depository corporations, will be reported to the IMF by the NBKR within 16 days of the end of the month. The information provided will clearly identify the following items: net foreign assets and net domestic assets of the banking system, medium- and long-term liabilities, net credit from the banking system to the general government disaggregated by the state government, the social fund and the KRDF, net claims to the rest of the economy, other items net, and broad money. The monetary survey will be provided using both program and actual exchange rates.

31. The NBKR will provide monthly data to the IMF within seven days after the end of the month on the amount of holdings of treasury bills, treasury bonds and other securities issued by the state government, differentiated by the following categories of holders: the NBKR; resident banks; resident nonbanks (including separately the social fund and deposit insurance fund); and nonresidents. The information will be provided in both the book (nominal) value and the actual value, where applicable.

### **C. International reserves and key financial indicators**

32. The NBKR will provide detailed monthly data within 20 days from the end of the month on the composition of both its gross and net international reserves in convertible currencies and holdings of monetary gold. These data will be provided at two alternative sets of the exchange rates and the gold price: first, at those used to derive the NFA position in the NBKR accounts; and second, at those specified in the program (see Section I). The NBKR will also provide data on net foreign financing flows, including disbursements of program loans and grants, amortization, interest payments on external debt, interest income on reserves, other direct foreign currency payments by the government and the NBKR. In addition, weekly reports should be sent to the IMF on (a) nominal exchange rates (including the official and interbank exchange rates), foreign exchange interbank market turnover, and the volume of NBKR foreign exchange sales and purchases in the domestic interbank market and with other parties, on a daily basis; and (b) treasury bill yields and the amount of treasury bill sales and redemptions on a weekly basis every Monday. On the twenty-fifth day of the month following the reference month, the NBKR will provide indicators of financial

soundness of the banking system, including the ratios of regulatory capital to risk-weighted assets, nonperforming loans to total loans, and return on equity, as well as data on bank deposit and lending rates by maturity.

#### **D. External debt**

33. The ministry of finance, together with the NBKR, will provide monthly information on the disbursements, principal and interest payment—both actual and falling due—on contracting and guaranteeing of medium- and long-term external loans by the state government, nonfinancial public enterprises, and the NBKR; and any stock of outstanding arrears on external debt service payments within 21 days of the end of each month. In addition, the ministry of finance will report the total amount of outstanding government guarantees and external arrears on a monthly basis. While the NBKR will provide the debt service payment data on private debt, the ministry of finance will provide data on debt service on public and publicly guaranteed loans.

#### **E. Budgetary and extra budgetary data**

34. In addition to the monthly treasury report, the Social Fund will report monthly on its operations. This information will be provided to the Fund staff within 26 days from the end of each reference month. The ministry of finance will also provide monthly reports on the disbursements and use under the public investment program and budgetary grants with a one-month time lag.

#### **F. Balance of payments data**

35. The NBKR will provide current account and capital account data, including data on foreign trade, services, official and private transfers, foreign investment, and disbursements of public and private loans, on a quarterly basis, with at most a three-month lag. The NBKR will also provide monthly foreign trade data with a two-month lag.

#### **G. Other general economic information**

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

Table 1. Kyrgyz Republic: Ten largest SOEs

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

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

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

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

|                                      | 2011 1/   |          | 2012 1/ |      |
|--------------------------------------|-----------|----------|---------|------|
|                                      | September | December | March   | June |
| Program grants                       | 66.9      | 87.9     | 29.8    | 74.6 |
| Program loans                        | 123.8     | 140.3    | 0.0     | 16.5 |
| PIP loans 2/                         | 126.0     | 152.3    | 22.1    | 99.7 |
| Amortization of public external debt | 28.7      | 43.8     | 6.6     | 22.5 |
| Interest payments                    | 41.3      | 41.5     | 7.0     | 12.0 |

1/ Cumulative disbursements since the beginning of the year.

2/ PIP loans include foreign-financed energy infrastructure projects starting from 4th Quarter, 2011.

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<br>Net foreign financing flows   | Monthly   | Within 20 days of the end of each month   |
| NBKR             | Nominal exchange rates<br>Foreign exchange interbank market turnover<br>Volume of NBKR foreign exchange sales and purchases in the domestic interbank market and with other parties, on a daily basis;<br>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<br>NBKR      | Disbursements, principal and interest payment (external debt)<br>Contracting and guaranteeing of medium- and long-term external loans<br>Any stock of outstanding arrears on external debt service payments<br>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   |