

International Monetary Fund

[Kyrgyz Republic](#) and
the IMF

Kyrgyz Republic: Letter of Intent, Technical Memorandum of
Understanding

Press Release:
[IMF Completes
Fourth Review Under
an ECF Arrangement
with the Kyrgyz
Republic, Approves
US\\$14.4 Million
Disbursement, and
Completes Article IV
Consultation](#)
June 10, 2013

May 20, 2013

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Letter of Intent

May 20, 2013

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

Dear Ms. Lagarde:

The third review of our economic and financial program, supported by an arrangement under the Extended Credit Facility (ECF), was completed by the IMF Executive Board on December 3, 2012. We are grateful to the IMF for its continued support of our economic reform program.

The ECF arrangement continues to play a critical role in our efforts to maintain macroeconomic stability and promote sustainable and inclusive growth in a low inflation environment. The program has been fundamental in stabilizing the Kyrgyz economy and in consolidating much-needed financial support from donors following the 2010 events. While the economy rebounded strongly in 2011, 2012 turned out to be a challenging year. The political environment has been stable since a new cabinet took over in September 2012, but the disruption in gold production in the largest gold-mining company took a heavy toll on the economy with negative overall growth and a higher current account deficit.

Notwithstanding these challenges, the program remains broadly on track and the government is committed to the reform path under the ECF arrangement. For the fourth review of the ECF-supported program, all performance criteria, except one continuous performance criterion, and all but one of the structural benchmarks were met. However, indicative targets on reserve money and state government tax collections were missed. Structural reforms continued in line with our commitments in the Letter of Intent (LOI) and the Memorandum of Economic and Financial Policies (MEFP) dated June 2, 2011 and the LOIs dated November 17, 2011; April 12, 2012; and November 14, 2012. The government has submitted the anti-money laundering and countering the financing of terrorism (AML/CFT) law and the relevant provisions of the Criminal Code to parliament in December 2012. We have revised the privatization strategy of the Settlement and Savings Company to ensure the disposal of a majority government stake and adopted it on February 27, 2013. We have made significant progress in drafting the new Banking Code with the help of the IMF resident legal advisor and submitted the Code to the government in March 2013. We adopted a government resolution on the procedures for submission of budgets of the next 10 largest state-owned enterprises (SOEs) to be approved and monitored by the government. Regrettably, we were not able

to sell Zalkar Bank within the timeframe under the ECF arrangement. However, we managed to sell Zalkar Bank to a fit and proper buyer in early May. The “Electrical Stations”—one of the 10 largest SOEs—signed a nonconcessional loan agreement with the Eurasian Development Bank, in the amount of US\$30 million on February 21, 2013, leading to the nonobservance of the continuous quantitative performance criterion on the contracting of new nonconcessional external debt.

In view of the broadly successful implementation of the program to date and our continued commitment to the program, we request completion of the fourth review under the ECF-supported program, and a waiver for missing the continuous quantitative performance criterion on the ceiling on contracting or guaranteeing of new nonconcessional external debt based on corrective actions being taken. We request the fifth disbursement under the ECF arrangement in the amount of SDR 9.514 million (US\$14 million). We ask that the fifth and sixth disbursements under the ECF arrangement be channeled to the budget. Moreover, we request the modification of the end-June 2013 quantitative performance criteria to reflect the changed macroeconomic outlook. The government believes that the economic and financial policies set forth in our LOI and MEFP of June 2, 2011, LOIs of November 17, 2011; April 12, 2012; and November 14, 2012, supplemented with this LOI and the modified quantitative performance criteria and updated structural benchmarks (Tables 1 and 2, respectively) are adequate to meet the objectives of the ECF arrangement. During the period of the ECF arrangement, the Kyrgyz government will continue to maintain a policy dialogue with the Fund and stands ready to take additional measures as needed. We will consult with Fund staff on such measures and in advance of revisions contained in the MEFP dated June 2, 2011, LOIs of November 17, 2011; April 12, 2012; and November 14, 2012 and this updated LOI in accordance with Fund policies.

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

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, the LOIs dated November 17, 2011; April 12, 2012; and November 14, 2012, remain valid and are updated with this LOI.
2. **Maintaining macroeconomic stability remains the cornerstone of our program.**
 - Growth in 2013 is expected to rebound on the account of the recovery in the gold production and continued strong performance in the nongold sector. We expect growth to be 7 percent on average over the next three years, before stabilizing at 5 percent thereafter.
 - Twelve-month inflation dropped slightly over the first three months of 2013 mainly because of a continued decline in food prices. We will continue to keep monetary conditions tight to maintain inflation in single digits in 2013 and beyond.

- The current account deficit is projected to decline in 2013, mainly reflecting the recovery in gold exports. We anticipate that the current account deficit will continue to decline over the medium term.
- Fiscal consolidation is expected to continue in line with the path set out under the ECF arrangement. The fiscal deficit is projected at 5.3 percent in 2013 and expected to decline to 2.6 percent by 2015.
- Public debt in percent of GDP is projected to remain on its downward path in the medium term.

3. **We are mindful of the risks to our medium-term projections.** A deterioration of global economic conditions could spill over to the Kyrgyz economy through reduced external demand and lower remittances from Russia and Kazakhstan. Moreover, a sustained increase in international food and fuel prices could put pressure on inflation and exacerbate external vulnerabilities.

A. Fiscal Policy

4. **Because of shortfalls in revenues and external financing in 2012, we cut nonpriority outlays, while safeguarding critical social expenditures.** Lower gold production has led to a decline in gold-related revenues. Delays in implementing structural measures agreed with the World Bank added to revenue and financing shortfalls. The revenue-smoothing arrangement, which we negotiated with the Kumtor gold company, and buoyant customs revenues throughout the first nine months of 2012 have partially offset the shortfall in revenues. However, growth in customs revenues decelerated in late 2012. Owing to the decline in the overall resource envelope, we reduced spending on goods and services and capital projects while maintaining social outlays. At the same time, the implementation of foreign-financed energy infrastructure projects was faster than expected. In late 2012, we received external grants that led to a better-than-anticipated overall fiscal deficit—5.4 percent of GDP compared to 6 percent of GDP projected earlier.

5. **We continue to place strong emphasis on fiscal consolidation in 2013 and the medium term.** The government is basing the 2013 budget on conservative revenue forecasts, nonpriority expenditure restraint, and social considerations. The overall fiscal deficit is expected to decline to 5.3 percent of GDP, in line with our commitment to consolidate the fiscal position.

- We do not expect the exceptionally strong growth in customs revenues to continue in 2013. Therefore, tax revenues are no longer anticipated to reach budgeted levels. Nontax revenues in percent of GDP are also expected to decline because of the reform to regularize government provided fee-based services.
- We are continuing our efforts to strengthen tax administration and to reduce noncompliance, including with the support from the IMF. We are implementing a formal compliance improvement plan for several sectors that pose a significant revenue compliance risk. Technical assistance from the IMF would help us identify key challenges in tax administration and provide us with recommendations regarding future priorities and options for reforms.

- The government remains committed to reducing the overall wage bill in percent of GDP. Savings generated by the ongoing civil service reform will allow us to increase wages in segments of the public sector. The ongoing public procurement reform, including the pending introduction of e-procurement, will also generate fiscal savings by reducing outlays on goods and services.
- We will ensure that the pension increase in 2013 continues to be tied to the changes in the minimum subsistence level. We intend to submit the draft pension reform concept note to parliament in October. This concept note will propose various options for making the pension system more equitable and affordable, but will also discuss ways to ensure financial sustainability of the pension system.

6. **We continue to improve debt management and to reduce the debt service burden on the budget.** The medium-term debt management strategy, adopted as part of conditionality under the ECF arrangement, will be updated this year. We acknowledge that transforming the government securities market into a deep and liquid market will take time. To develop the domestic debt market, we are improving the operational infrastructure for the primary market of government securities at the National Bank of the Kyrgyz Republic (NBKR), which will remain the government agent for conducting primary auctions and the central depository for all government securities. We discontinued direct sales of government securities by the ministry of finance and will ensure that the sales take place only at organized auctions. The upcoming Financial Stability Assessment Program will assist us in identifying reform options to deepen the domestic debt market.

7. **We are strengthening the role of the ministry of finance in core aspects of fiscal policy.** We returned the tax policy function to the ministry of finance and will create a new, adequately staffed, department on tax policy in the ministry of finance (structural benchmark). This department will become the focal point on all tax policy-related matters. The government expects comprehensive technical assistance from the IMF in this area. We expanded the coverage of the reporting requirements for the 10 largest state-owned enterprises (SOEs) to 20. The expansion of the list should help mobilize additional revenues and limit potential fiscal costs through improved monitoring. We will ensure that all reports from these SOEs are shared regularly with the ministry of finance. To prevent the 10 largest SOEs, which are part of the public sector, from contracting nonconcessional loans, which recently led to nonobservance of the continuous performance criterion, we will issue a government resolution requiring these SOEs to provide all information on their borrowing plans and debt service. With this information, the ministry of finance can prevent the SOEs from contracting nonconcessional loans or incurring external arrears.

8. **We continue our work on public financial management (PFM) reform and will work with parliament to ensure that the new Budget Code is in line with recent IMF technical assistance advice.** The government has recently updated the action plan on PFM reforms. As part of this plan, we have developed a draft law on public procurement, which we will submit to parliament for approval in June. This law is expected to enhance the transparency and efficiency of public spending. We will issue a regulation on expanding the coverage of the commitment register to include local budgets and special means. The ministry of finance will also develop and approve

regulations on accounting and financial reporting using the unified chart of accounts on the basis of international norms (structural benchmarks). We expect that these measures will enhance control over public spending.

B. Monetary, Exchange Rate, and Financial Sector Policies

9. **The NBKR will maintain a tight monetary policy stance to keep inflation in single digits in 2013 and beyond.** Core inflation remains stubbornly high and the expected recovery in economic activity this year may add to inflationary pressures. We will respond to these pressures by further tightening monetary policy. However, declining international food and fuel prices are expected to partly offset the pressures. We acknowledge that second-round effects of unexpected external price shocks will require further policy actions. The NBKR will maintain its policy of intervening in the foreign exchange market only to smooth excessive volatility and ensure orderly market conditions.

10. **We plan to strengthen the operational framework for monetary policy in order to improve transmission channels.** We welcome suggestions of the recent IMF technical assistance mission in inflation modeling and monetary tools. We will review the role, function, and mechanism for setting the policy rate to better signal the monetary stance to the economy, as well as the role of other instruments necessary to create a corridor around the new policy rate. To better withdraw excess liquidity, we will conduct timely and sufficient OMOs and reassess the maturity of notes used for OMOs. The potential adverse impact on NBKR profits will not be a constraint to the implementation of monetary policy. The NBKR and the ministry of finance will continue the close cooperation to facilitate liquidity management. We will further improve the NBKR's communication about the macroeconomic outlook and the NBKR's forecast through more regular and frequent press briefings, expert and discussion forums, and publishing notes and articles. We will develop a model with the help of the IMF and EBRD during this year to improve inflation forecasting and better understand economic relationships in our country.

11. **We plan to improve reserve management in line with IMF technical assistance recommendations.** The NBKR will develop a comprehensive strategic asset allocation framework and will continue to develop the investment policy further. We intend to review governance procedures and the role of different committees, as well as the risk management framework related to the reserve management activities. We will provide adequate resources (IT, staffing, training, and support from other units) to support the reserve management function in the NBKR.

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

- The government has intensified its efforts to sell Zalkar Bank to a fit and proper buyer. In early May, we managed to sell 90 percent of Zalkar's shares to one of the shareholders of ITB bank of Russia (ITB holding). We will ensure that the bank is in full compliance with capital requirements by end-December 2013.

- We will send the Banking Code to parliament by end-September 2013, in line with our commitments under the ECF arrangement. We will ensure to communicate to parliament the major benefits of the new code so that it is approved in line with IMF TA advice.

13. **We will work with parliament to ensure that the amendments to the AML/CFT legal framework and the payment system law are adopted swiftly and in line with Fund technical assistance.** The Fund technical assistance missions discussed with us the draft provisions of the Criminal Code (on the criminalization of money laundering and financing of terrorism, and confiscation), the Terrorist Assets Freezing Regulations, and the AML/CFT Law (customer due diligence, supervisory framework, and the Financial Intelligence Unit) that were altered during the parliamentary committee review process. We will urge parliament to bring the relevant provisions of these legislations and the provisions on identification of suspicious transactions and on State Financial Intelligence Service in line with IMF TA advice. We will also urge parliament to adopt and publish the AML/CFT law together with the payment system law swiftly. Timely action would help avoid that the Financial Action Task Force places the Kyrgyz Republic on its black list in June 2013.

C. Structural Policies

14. **We recognize the need to further improve the business environment, a key pillar of sustainable and inclusive growth.** We acknowledged that weak governance is still seen as one of the key impediments to the development of our economy. We will put all our efforts toward a constructive resolution of the dispute with Centerra to ensure that it does not lead to disruptions in gold production. A stable and predictable investment climate with proper contract enforcement, strengthened property rights, less red tape, and addressing corruption are essential for attracting investment and spurring private sector-led growth.

15. **We will continue close cooperation with IMF staff and other donors on the set-up and operations of the state development bank (SDB).** We are also studying successful examples of development banks in other countries and will reflect on their experience. The government will ensure that all regulations of the SDB currently being drafted are consistent with international best practice and principles of good governance and transparency. All public resources to the SDB will be channeled through the budget.

D. Program Monitoring

16. **The ECF-supported program will continue to be monitored through quantitative performance criteria, indicative targets, and structural benchmarks.** Quantitative performance criteria and indicative targets for March 2013, June 2013, September 2013, December 2013, March 2014, and June 2014 and continuous performance criteria are set out in Table 1 and structural benchmarks are set out in Table 2. Program reviews will continue to be conducted semi-annually, based on end-June and end-December test dates. The fifth and sixth reviews are expected to take place on or after November 15, 2013, and on or after April 30, 2014, respectively. The understandings between the Kyrgyz authorities and IMF staff regarding the quantitative

performance criteria and structural benchmarks described in this LOI and reporting requirements are further specified in the Technical Memorandum of Understanding as updated in the attached.

Sincerely yours,

/s/

Zhantoro Satybaldyev
Prime Minister of the Kyrgyz Republic

/s/

Olga Lavrova
Minister of Finance of
the Kyrgyz Republic

/s/

Zina Asankojoeva
Chairperson of the National
Bank of the Kyrgyz Republic

Table 1. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, September 2012–June 2014
(In millions of soms, unless otherwise indicated; eop)

	2012								2013				2014			
	September				December				March	June		September	December	March	June	
	IT				QPC				IT	QPC		IT	QPC	IT	IT	
	2nd Rev.	Adj.	Act.	Status	3rd Rev.	Adj.	Act.	Status	3rd Rev.	3rd Rev.	Revised	3rd Rev.	Revised			
<i>Quantitative performance criteria 1/</i>																
1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars)	1,678	1,653	1,731	Met	1,723	1,781	1,819	Met	1,758	1,788	1,848	1,879	1,861	1,941	1,921	1,971
2. Ceiling on net domestic assets of the NBKR (eop stock)	-10,491	-9,031	-13,079	Met	-11,633	-14,035	-16,271	Met	-13,905	-11,846	-14,419	-12,298	-11,617	-10,564	-16,320	-15,056
3. Ceiling on cumulative overall cash deficit of the general government 2/	12,703	17,579	10,773	Met	17,629	18,681	16,571	Met	920	6,486	7,594	8,939	11,644	18,273	1,345	6,377
4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/	400	400	0	Met	0	0	0	Met	0	0	0	0	0	0	0	0
5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	Met	0	0	0	Met	0	0	0	0	0	0	0	0
<i>Indicative Targets 1/</i>																
1. Ceiling on reserve money	60,222	60,222	60,175	Met	63,574	63,574	64,489	Not met	62,935	66,398	66,808	70,231	70,243	75,053	74,146	77,765
2. Cumulative floor on state government tax collections 2/	42,874	42,874	45,615	Met	64,458	64,458	63,912	Not met	15,055	31,412	30,919	50,340	49,599	71,886	17,263	36,054
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit (UMB) and Monthly Social Benefit (MSB) programs 2/	2,166	2,166	2,353	Met	2,888	2,888	3,257	Met	1,112	2,224	2,175	3,337	3,318	4,570	1,223	2,447

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

1/ As defined in the TMU.

2/ Cumulative from the beginning of the year.

3/ The continuous QPC was missed in February 2013.

Table 2. Kyrgyz Republic: Structural Benchmarks under the Extended Credit Facility, 2012–13

Measure	Timing	Macroeconomic Rationale	Status
Structural Benchmarks			
I. FISCAL POLICY			
Adopt a government resolution on the procedures for submission of budgets of the next 10 largest SOEs to be approved and monitored by the government.	End-March, 2013	Reduce fiscal risks stemming from state-owned enterprises and boost revenues from dividends.	Met
Create a new, adequately staffed, department on tax policy in the Ministry of Finance.	End-June, 2013	Develop a sound revenue base by strengthening the tax policy function by ensuring that the Ministry of Finance becomes the focal point on all tax policy-related matters.	New
Issue a regulation on expanding the coverage of the commitment register to include local budgets and special means.	End-September, 2013	Optimize spending by enhancing the treasury's ability to exercise public expenditure control.	New
Develop and approve regulations on accounting and financial reporting using the unified chart of accounts on the basis of international norms.	End-December, 2013	Optimize spending by strengthening the treasury's ability to conduct prudent expenditure management.	New
II. FINANCIAL SECTOR			
Complete Zalkar sale	End-December, 2012	Complete resolution of Zalkar Bank.	Met with delay
Revise and issue a cabinet-approved SSC sales strategy that ensures the divestiture of the majority of the bank's shares over the next two years.	End-February, 2013	Reduce the government's involvement in commercial banking activity.	Met
Submit the draft Banking Code (including Law on Banks and Banking Activity, Law on Conservatorship, Liquidation, and Bankruptcy of Banks, Law on NBKR) consistent with Fund TA advice, to (i) strengthen the legal framework for early intervention and resolution of problem banks; (ii) limit the scope of judicial review of actions taken by the NBKR; and (iii) enhance legal protection for NBKR staff and agents. The Banking Code reform will also: (i) establish the NBKR's sole authority to hold and manage official foreign reserves, and (ii) extend the term of engagement of the NBKR external auditors.		Strengthen bank resolution framework and supervisory independence of the NBKR. This will also ensure the supremacy of the NBKR law over other laws and regulations that might affect the NBKR; Strengthen institutional and financial autonomy of the NBKR.	
(i) to government	End-April, 2013		Met
(ii) to parliament	End-September, 2013		In progress
In line with the Fund's TA advice, submit to the parliament draft amendments to the AML/CFT law and to the relevant provisions of the Criminal Code to strengthen the AML/CFT legal framework. These provisions include the criminalization of money laundering and terrorist financing; identification, tracing, and freezing of terrorist assets; confiscation of funds related to money laundering; and customer due diligence measures for all financial institutions.	End-December, 2012	Bring the AML/CFT legislation in line with the Financial Action Task Force standard.	Met

Revised Technical Memorandum of Understanding

May 20, 2013

I. Introduction

1. This memorandum defines the quantitative performance criteria, indicative targets and adjustors, and establishes the content and frequency of the data to be provided to IMF staff for program monitoring related to the economic program supported by an arrangement under the Extended Credit Facility (ECF). The indicators presented in Table 1 of the Letter of Intent dated May 20, 2013 reflect the understandings on quantitative performance criteria reached between the authorities of the Kyrgyz Republic and staff of the IMF.

I. Quantitative Performance Criteria

A. Definitions and Concepts

2. **Test dates.** Quantitative performance criteria are set semi-annually starting June 30, 2011 through December 31, 2013, and are to be met at the end of each period.

3. **National Bank of the Kyrgyz Republic (NBKR).** The NBKR is the central bank of the country and is responsible for the formulation and implementation of monetary policy, bank supervision, and the payment system. For the purpose of the program, the NBKR includes all its central and regional offices.

4. **Public sector.** For the purpose of the program, the public sector comprises the general government, the NBKR, the 10 largest nonfinancial public enterprises (enterprises and agencies in which the government owns more than 50 percent of the shares, but which are not consolidated in the budget, as listed in Table 1a), and any other newly created public development institution. The State budget comprises central and local government budgets. The general government budget includes the State and Social Fund budgets.

5. **Foreign-financed Public Investment Program (PIP) loans and grants.** The foreign financed PIP is a program of investments in infrastructure and social sectors agreed by the general government of the Kyrgyz Republic and its donors (including but not limited to international financial organizations). The PIP is fully financed by related grants and loans.

6. **Program loans and grants** are loans and grants received by the general government for direct budget support from external donors and not related to PIP financing.

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

been agreed with the creditor are not considered arrears for program monitoring purposes. Program arrears would include any debt service due under such agreements that has not been paid.

8. **Concessional and nonconcessional debt.** Concessional debt is defined as debt with a grant element equivalent of 35 percent or more. The grant element of a debt is the difference between the present value (PV) of the debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more). The debt refers also to commitments contracted or guaranteed and for which value has not been received. The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees. The calculation is performed by the authorities and verified by the IMF staff based on the data provided by the authorities.

9. **Valuation changes (program exchange rates).** For program monitoring, U.S. dollar-denominated components of the NBKR's balance sheets will be valued at the program exchange rates. The program exchange rate of the KGS to the U.S. dollar is set at the end-2010 exchange rate of KGS 47.0992 = US\$1. The corresponding cross exchange rates and program gold price for the duration of the program are provided in Table 2.

B. Quantitative Performance Criteria

Floor on net international reserves of the NBKR in convertible currencies¹

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

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

are included in reserve assets and liabilities, correspondingly. Reserve assets pledged as collateral or otherwise encumbered, capital subscriptions in foreign financial institutions, and illiquid assets of the NBKR are excluded. Also excluded are net forward positions, defined as the difference between the face value of foreign-currency denominated NBKR off-balance sheet claims on nonresidents and foreign currency obligations to both residents and nonresidents. Total international reserve liabilities of the NBKR in convertible currencies are defined as the sum of Kyrgyz Republic's outstanding liabilities to the IMF and other convertible currency liabilities to nonresidents with an original maturity of up to and including one year. NIR is not affected when foreign assets are received by the NBKR through foreign currency swaps with resident financial institutions. Total international reserves and NIR decline with the provision of foreign assets by the NBKR through foreign currency swaps with resident financial institutions.² For program monitoring purposes, total international reserve assets and liabilities will be valued at the program exchange rates as described in paragraph 9. Thus calculated, the stock of net international reserves in convertible currencies amounted to US\$1,819 million on December 31, 2012.

11. **Net foreign assets (NFA) of the NBKR.** NFA consist of net international reserve assets plus other net foreign assets, including the medium- and long-term foreign obligations of the NBKR, other net claims on CIS countries, reserve assets pledged as collateral or otherwise encumbered, capital subscriptions in foreign financial institutions, and illiquid assets. For program monitoring purposes, other NFA will also be valued at program exchange rates.

Adjustors

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

Ceiling on the net domestic assets of the NBKR

Definitions

13. **Net domestic assets** of the NBKR (NDA) are defined as reserve money of the NBKR (defined below), minus NFA as defined above. Items in foreign currencies will be valued at program exchange rates.

² In case of a foreign currency swap that involves receipt of foreign currency by the NBKR and transfer of local currency to a resident financial institution, total international reserves increase, NIR is unchanged, and net claims on domestic banks in soms increase. In case of a foreign currency swap that involves transfer of foreign currency by the NBKR and receipt of local currency from a resident financial institution, total international assets and NIR decline, while the NBKR net claims on resident banks remain unchanged.

14. Thus defined, NDA consist of: (a) net claims to the general government from the NBKR; (b) net claims to other depository corporations by the NBKR; (c) net claims on other financial corporations; and (d) all other net assets of the NBKR (other items net). Thus defined, the stock of NDA amounted to minus KGS 16,271 million on December 31, 2012.

Adjustors

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

Ceiling on the cumulative overall cash deficit of the general government

Definitions

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

- a) the change in the stock of net claims of the domestic banking system and nonfinancial institutions and households on the general government. The change in the stock of net claims of the domestic banking system on the general government is defined as the change in the stock of the banking system claims on the general government, less the change in the stock of all deposits of the general government with the banking system. The claims of the banking system on the general government include: bank loans to the general government; any securities issued by the general government and held by domestic banks, with the exception of those issued in relation with bank rescue operations; and overdrafts on the current accounts of the general government with banks;
- b) the change in the stock of net claims of foreign governments, banking systems, and nonfinancial institutions and households on the general government;
- c) net privatization receipts, i.e. any new sales net of purchases of shares;
- d) net foreign loans disbursed to the general government for budgetary support; and
- e) net foreign loans disbursed to the general government for PIP financing.

17. The quantitative performance criteria for the fiscal balance are calculated on the projected exchange rate. Reporting and adjustments, as defined above, will be made using current exchange rates.

Adjustors

18. The ceiling on the cumulative overall cash deficit of the general government will be adjusted downward to the full extent of any excess in program grants, as given in Table 3. The ceiling on the cumulative overall cash deficit of the general government will be adjusted downward to the full extent of any shortfall in program loans, as given in Table 3 and upward/downward to the full extent that PIP loans are more/less than PIP loans given in Table 3.

Ceiling on contracting or guaranteeing of new nonconcessional external debt and accumulation of new external payment arrears by the public sector (continuous quantitative performance criteria)

Definitions

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

- a) For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:
 - i. loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
 - ii. suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
 - iii. leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be

made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

- b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

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

21. **External debt ceilings** apply to the contracting or guaranteeing by the public sector (as defined in section II. A., paragraph 4) of nonconcessional external debt, i.e. external debt with grant element of less than 35 percent (see section II. A., paragraph 7), except normal short-term import-related credits and NBKR international reserve liabilities.

22. **Exclusions from the external debt limits.** Disbursements by the IMF are excluded from the ceilings on external debt. Also excluded from external debt ceilings is the contracting or guaranteeing of new external debt that constitutes a rescheduling or refinancing of existing external debt on the terms more favorable to the debtor.

23. **Guarantees.** For program purposes, the guarantee of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or from any implicit legal or contractual obligation of the public sector to finance partially or in full a shortfall incurred by the debtor.

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

C. Indicative Targets

Ceiling on reserve money

25. **Reserve money** is defined as the NBKR's national currency liabilities to the economy, which includes currency issued and liabilities to other depository 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.

II. Reporting Requirements Under the Arrangement

28. The government and the NBKR will provide the IMF with the necessary economic and financial statistical data to monitor economic developments and the quantitative targets (see Table 4). In particular, the government and the NBKR will provide the following specific information.³

A. The Balance Sheet of the NBKR

29. The NBKR will provide to the IMF its analytical balance sheet on a daily basis. The information provided will clearly identify the following items in the definitions specified above: the gross foreign assets and liabilities of the NBKR, decomposed by currency and instrument for the assets and by currency and creditor for the liabilities (decomposition provided on a monthly basis); the net foreign assets of the NBKR; the net international reserves of the NBKR; medium- and long-term liabilities; the net domestic assets of the NBKR; net credit from the NBKR to the general government, disaggregated by state government and the KRDF; net credit from the NBKR to commercial banks; net claims to other financial corporations; other items net; and reserve money. The balance sheet will be provided using both actual and program exchange rates. The above information will be provided to the IMF Resident Representative and/or transmitted by e-mail to the IMF.

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

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

banks; resident nonbanks (including separately the social fund and deposit insurance fund); and nonresidents. The information will be provided in both the book (nominal) value and the actual value, where applicable.

C. International Reserves and Key Financial Indicators

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

D. External Debt

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

E. Budgetary and Extra Budgetary Data

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

F. Balance of Payments Data

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

G. Other General Economic Information

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

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

	<u>Name of SOE</u>
1	JSC KyrgyzAltyr
2	JSC KyrgyzNefteGaz
3	JSC "Electrical Stations"
4	JSC "National Electrical Grid of Kyrgyzstan"
5	JSC "Manas International Airport"
6	JSC KyrgyzTelecom
7	JSC SeverElectro
8	SOE "National Company Kyrgyz Temir Jolu"
9	JSC KyrgyzGaz
10	JSC BishkekTeploset

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

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

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

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

Table 3. Kyrgyz Republic: Projected Budget Support, PIP, and Amortization

	2013 1/			2014 1/	
	June	September	December	March	June
Program grants	1.4	2.2	22.3	0.0	41.6
Program loans	26.4	39.7	66.2	10.0	40.0
Public investment program loans	115.0	172.9	269.0	52.6	105.2
Amortization of public external debt	24.5	32.6	49.4	12.6	25.2
Interest payments	16.8	30.5	35.7	9.7	19.3

1/ Cumulative disbursements since the beginning of the year.

Table 4. Kyrgyz Republic: Reporting Requirements/Frequency Under the Arrangement

Reporting Agency	Data	Frequency	Timing
NBKR	Analytical balance sheet of NBKR	Daily	The following working day
NBKR	Monetary surveys of the banking sector and other depository corporations	Monthly	Within 16 days of the end of each month
NBKR	The amount of holdings of treasury bills, treasury bonds and other securities issued by the state government	Monthly	Within 7 days of the end of each month
NBKR	The composition of both its gross and net international reserves in convertible currencies and holdings of monetary gold Net foreign financing flows	Monthly	Within 20 days of the end of each month
NBKR	Nominal exchange rates Foreign exchange interbank market turnover Volume of NBKR foreign exchange sales and purchases in the domestic interbank market and with other parties, on a daily basis Treasury bill yields and the amount of treasury bill sales and redemptions	Weekly	The following working day
NBKR	Indicators of financial soundness of the banking system	Monthly	Within 25 days of the end of each month
MOF NBKR	Disbursements, principal and interest payment (external debt) Contracting and guaranteeing of medium- and long-term external loans Any stock of outstanding arrears on external debt service payments Total amount of outstanding government guarantees and external arrears	Monthly	Within 21 days of the end of each month
Social Fund	Social Fund operations report	Monthly	Within 26 days of the end of each month
MOF	Disbursements and use under the public investment program and budgetary grants	Monthly	Within 30 days of the end of each month
NBKR	Current account and capital account data	Quarterly	Within 90 days of the end of each quarter
NBKR	Foreign trade data	Monthly	Within 30 days of the end of each month
NSC	Consumer Price Index by category	Monthly	Within 15 days of the end of each month
NSC	GDP	Monthly	Within 30 days of the end of each month