

International Monetary Fund

[Kyrgyz Republic](#) and
the IMF

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

Press Release:
[IMF Executive Board
Completes Sixth
Review Under the
ECF Arrangement for
the Kyrgyz Republic
and Approves
US\\$14.7 Million
Disbursement](#)
June 26, 2014

June 9, 2014

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Letter of Intent

June 9, 2014

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

Dear Ms. Lagarde:

The fifth 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 4, 2013. We are grateful to the IMF for its continued support of our economic reform program.

The ECF arrangement, which was extended until 7/31/2014, continues to play a pivotal role in maintaining macroeconomic stability and in promoting private sector-led growth. The economy rebounded strongly in 2013, following negative growth in 2012 related to disruptions in gold production, with robust and broad-based growth in a low inflation environment. Fiscal policy remained prudent, and we managed to keep the deficit below program targets. We are pursuing an intensive public investment program that is creating temporary pressures on the current account, but is expected to spur growth once finalized. We signed a memorandum of understanding with the gold mining company Centerra that was approved by parliament on February 6, 2014.

The program remains on track and the government is committed to the reform path under the ECF arrangement. For the sixth review of the ECF-supported program, all end-December 2013 quantitative performance criteria and all but one indicative targets were met. The Board of the National Bank of the Kyrgyz Republic issued a decision to implement a new operational framework for monetary policy in December 2013 and started to implement the new framework in March 2014. We approved the regulation on accounting and financial standards using the chart of accounts based on international norms. In view of the expiration of the Governance Technical Assistance Credit project late last year and issues with the vendor, we could not introduce the TSA on a pilot basis and delays in securing financing for the audit of DEBRA and the banks under its management prevented us from signing a contract with a big four auditor on time.

We prepared the annual progress report (APR) of our Medium Term Development Program in early 2014. The APR is based on the recently approved Kyrgyz Republic 2013–17 National Sustainable Development Strategy (NSDS). The strategy focuses on accelerating economic growth, consolidating macroeconomic stability, maintaining debt sustainability, and advancing structural reforms. It recognizes that improving the business environment, reforming the public sector, strengthening the financial system, and addressing infrastructure development needs are essential for achieving high, broad-based, and inclusive growth and reducing poverty.

We are committed to implement the remaining reforms set out in the MEFP and LOI dated June 2, 2011, and the LOIs dated November 17, 2011; April 12, 2012; November 14, 2012; May 20, 2013; and November 15, 2013. Moreover we intend to continue our fiscal consolidation efforts over the medium term, further improve tax policy and tax administration, finalize the remaining PFM reforms, and step up pro-poor spending to reverse recently rising poverty levels. In particular, we will draft an action plan by early June with the following components: choice of information system, introduction of the TSA, implementation of the accounting rules, and introduction and integration of modules for budget preparation, budget execution, cash planning, commitment control, and human resources. We commit to finalizing the TOR for the DEBRA audit, in consultation with the IMF, the World Bank and SECO, with a view to concluding the liquidation of the banks under DEBRA's management and subsequently winding down DEBRA's operations. In this context, we sent a letter end-May to the World Bank to initiate the process for the audit. To fend off strong depreciation pressures earlier in the year, we intervened heavily in the foreign exchange markets, but are committed to re-accumulate reserves to ensure that net international reserves are not lower than US\$1,922 million, by end May. The NBKR is aiming to improve further forecasting models, liquidity management and the operational framework for monetary policy. In this regard, we would benefit from additional technical assistance. We are determined to resolve the lingering issues in the financial sector and push forward with the legislative reforms in the banking and financial sector as well as the implementation of the remaining 2013 FSAP recommendations.

We will continue to improve the business environment and tackle perceived corruption. More specifically, potential medium-term measures are outlined in Box 1 of this LOI.

In view of our achievements, we request completion of the sixth review under the ECF-supported program. We request the seventh disbursement under the ECF arrangement in the amount of 9.516 million in the equivalent of SDR (US\$14.55 million). We ask that the seventh disbursement under the ECF arrangement be channeled to the budget.

We believe that economic and financial policies and measures set forth in this letter and MEFP of June 2, 2011, the LOIs of November 17, 2011; April 12, 2012; November 14, 2012; May 20, 2013 and November 15, 2013, are adequate to meet the objectives of the ECF arrangement. We stand ready to take any additional measures necessary to achieve the program objectives, and we will consult with the IMF staff before adoption such measures or changes to policies stated in the MEFP dated June 2, 2011, LOIs of November 17, 2011; April 12, 2012; November 14, 2012; May 20, 2013; November 15, 2013, and this updated LOI in accordance with Fund policies.

To set a path for a possible successor arrangement, we intend to keep the reform momentum. In particular we will: (i) maintain macroeconomic stability and observe indicative targets set in this letter (Table 1); (ii) speed up the public financial sector management reforms; and (iii) finalize remaining legislative reforms in the financial sector.

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.

/s/

Djoomart Otorbaev
Prime Minister of the Kyrgyz Republic

/s/

Olga Lavrova
Minister of Finance of
the Kyrgyz Republic

/s/

Tolkunbek Abdygulov
Chairperson of the National
Bank of the Kyrgyz Republic

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

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

	2013								2014							
	September				December				March				June			
	IT				QPC				IT				Target 4/			
	4th Rev.	Adj.	Act.	Status	5th Rev.	Adj.	Act.	Status	5th Rev.	Adj.	Actual	Status	5th Rev.	Revised	September Target 4/	December Target 4/
<i>Quantitative performance criteria 1/</i>																
1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars)	1,861	1,889	1,939	Met	1,964	2,039	2,062	Met	1,967	1,969	1,914	Not met	2,056	1,922	1,919	2,015
2. Ceiling on net domestic assets of the NBKR (eop stock)	-11,617	-12,820	-16,575	Met	-12,480	-16,003	-20,075	Met	-13,845	-14,006	-20,010	Met	15,492	-13,043	-10,621	-10,591
3. Ceiling on cumulative overall cash deficit of the general government 2/	11,644	10,289	6,099	Met	18,273	15,902	13,860	Met	1,410	-2,009	-2,545	Met	5,447	4,613	10,523	16,520
4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars) 3/	0	0	0	Met	0	0	0	Met	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
<i>Indicative Targets 1/</i>																
1. Ceiling on reserve money	70,243	...	68,935	Met	74,998	...	73,139	Met	73,778		67,384	Met	76,331	74,861	77,113	81,284
2. Cumulative floor on state government tax collections 2/	49,599	...	51,725	Met	71,186	...	72,842	Met	16,823		16,670	Not met	36,301	36,069	56,273	81,401
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit (UMB) and Monthly Social Benefit (MSB) programs 2/	3,318	...	3,318	Met	4,323	...	4,241	Not met	1,169		1,083	Not met	2,338	2169	3,255	4,377

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 of less than 35 percent, cumulative from April 1, 2013.

4/ Targets beyond March 2014 are nonbinding.

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

Measure	Timing	Macroeconomic Rationale	Status
Structural Benchmarks			
I. FISCAL POLICY			
Create a new, adequately staffed, department on tax policy in the Ministry of Finance.	End-June, 2013	Develop a sound revenue base by strengthening the tax policy function by ensuring that the Ministry of Finance becomes the focal point on all tax policy-related matters.	Met
Issue a regulation on expanding the coverage of the commitment register to include local budgets and special means.	End-September, 2013	Optimize spending by enhancing the treasury's ability to exercise public expenditure control.	Met with delay
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.	Met
Introduce the Treasury Single account on a pilot basis.	End-April, 2014	Optimize spending by strengthening the treasury's ability to conduct prudent expenditure management.	Not met
II. FINANCIAL SECTOR			
Submit the draft Banking Code (including Law on Banks and Banking Activity, Law on Conservatorship, Liquidation, and Bankruptcy of Banks, Law on NBKR) consistent with Fund TA advice, to (i) strengthen the legal framework for early intervention and resolution of problem banks; (ii) limit the scope of judicial review of actions taken by the NBKR; and (iii) enhance legal protection for NBKR staff and agents. The Banking Code reform will also: (i) establish the NBKR's sole authority to hold and manage official foreign reserves, and (ii) extend the term of engagement of the NBKR external auditors.		Strengthen bank resolution framework and supervisory independence of the NBKR. This will also ensure the supremacy of the NBKR law over other laws and regulations that might affect the NBKR; Strengthen institutional and financial autonomy of the NBKR.	
(i) to government	End-April, 2013		Met
(ii) to parliament	End-September, 2013		Met
Identify and sign contract with one of the big 4 audit companies to audit DEBRA.	End-February, 2014	Speed up the liquidation process.	Not met
III. MONETARY POLICY			
Issue a board decision comprising the following: (i) use the policy rate as an operational target for monetary policy; (ii) reactivate instruments to create a corridor around the policy rate; (iii) introduce a short-term liquidity facility; (iv) preannounce the schedule of the NBKR's board meetings on monetary policy on the NBKR's web site; (v) start issuing a press release after board meetings on monetary policy and economic developments.	End-December, 2013	Enhance the monetary policy framework and improve transmission of monetary policy.	Met

Box 1. Kyrgyz Republic: Potential Medium-Term Economic Reform Measures to Support the NSDS

Maintaining macroeconomic stability through continued fiscal consolidation, speeding up public financial sector management reforms, finalizing the remaining legislative reforms in the financial sector, and enhancing the business environment will play a pivotal role in achieving the goals of our National Sustainable Development Strategy.

Consolidating the fiscal position and putting public finances on a sound footing, while raising living standards, would require to reduce the primary deficit and to maintain a sustainable debt path. Reducing gradually the wage bill and expenditures on goods and services in percent of GDP, in particular by improving procurement, and increasing further tax revenues as share of GDP by implementing tax policy and tax administration measures will play a key role in this regard.

Potential tax policy measures that would support fiscal consolidation include removing gradually remaining tax exemptions and adding anti-avoidance and anti-evasion provisions in the tax code. Other options include adjusting selective tax rates.

Measures to improve the effectiveness of the State Tax Service (STS) would include: (i) continuing to develop a risk-based sectoral compliance program; (ii) increasing the efficiency and effectiveness of the large taxpayers' unit (LTU), including through the definition of the optimum number of taxpayers that the LTU is handling; (iii) strengthening the capacity of STS IT staff; and (iv) realigning the business processes to make full use of the new Integrated Tax Administration System (ITAS).

Sound public financial management will help make public finances more effective and transparent. In particular, introducing the Treasury Single Account, extending the coverage of the treasury system to include the Social Fund, and applying the new accounting rules, including the unified chart of accounts, in line with international accounting standards, would improve our PFM system substantially. In addition, implementing all modules of the treasury management system, in particular integrating the commitment control and cash planning modules will strengthen our treasury system. Finalizing and enacting the budget code, taking into account the suggestions of the World Bank and the IMF, and implementing the Procurement Law will improve the legislative PFM framework.

We have made important strides toward improving our monetary policy framework. Going forward, key measures include improving the short- and medium-term forecasting models, staffing properly the department in charge of monetary policy (economic management department), limiting reserve money growth over the medium term, analyzing the level of excess reserves and linking it with market interest rates to improve liquidity forecasting. In this context, it will be crucial to enhance the coordination between the ministry of finance and the National Bank of the Kyrgyz Republic (NBKR). With regard to exchange rate policy, limiting interventions in the foreign exchange market, except to smooth excess volatility, will be instrumental in maintaining our floating exchange rate regime. Enhancing the control over the foreign exchange bureaus, including requirements to keep mandatory accounts at commercial banks, will improve functioning of the foreign exchange market.

A sound financial sector is key to strong and private sector-led growth. Key measures to further develop the sector include enacting the Banking Code as submitted to parliament in September 2013 and updating/developing subsequently supporting legislation (regulations, instruction, and guidelines) for the Banking Code, and the deposit protection law. It will be important to create a level playing field for all banks by harmonizing the minimum capital requirement, while maintaining the 12 percent regulatory capital requirement. Moreover, it will be key to conclude the liquidation process of banks under DEBRA's management and wind down DEBRA's operations. It is also important to enhance further bank supervision by developing and executing a strategic plan to build supervisory capacity and establishing a formal crisis preparedness framework. To improve the functioning of our pension system, we intend to conduct an independent actuarial

Box 1. Kyrgyz Republic: Potential Medium-Term Economic Reform Measures to Support the NSDS (concluded)

evaluation of the pay-as-you-go component of the Social Fund and to develop a timetable for the reform of the social insurance and pension system. In addition, we envisage enacting the Payment System and AML/CFT legislations will bring our financial legislation in line with international best practice.

Enhancing the business environment is the cornerstone of our strategy to foster investment and growth. Key measures in that area include monitoring the business environment via regular business surveys to identify obstacles and bottlenecks in the implementation of regulations, continuing to streamline the licensing process and inspections, and organizing business forums to increase cross-border cooperation. Our power sector could develop into an engine of growth, but to achieve this goal will require implementing the 2012 Medium-Term Power Sector Development Strategy. This includes: (i) improving governance, regulation and transparency of the power sector; (ii) bolstering financial viability of the power sector; (iii) increasing the volumes of power generation and export; and (iv) improving in reliability of power supply. In addition, we envisage finalizing the draft Law on the Electricity Sector to clearly delineate the policy setting functions and identifying independent regulatory bodies, governance structures and accountability in the sector. Finally, corporate governance in the power sector would be improved by (i) selecting managers in state-owned companies through a transparent and competitive processes; (ii) mandating financial audits of power sector entities in accordance with IFRS; and (iii) setting up websites of key agencies to publish key power sector statistics and to ensure transparent and competitive bidding in the procurement of fuel. Feasibility studies for large energy-infrastructure projects are necessary to ensure financial viability and public debt sustainability.

Revised Technical Memorandum of Understanding

June 9, 2014

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 June 9, 2014 reflect the understandings on quantitative performance criteria reached between the authorities of the Kyrgyz Republic and staff of the IMF.

II. Quantitative Performance Criteria

A. Definitions and Concepts

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

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

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

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

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

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

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

8. Concessional and nonconcessional debt. Concessional debt is defined as debt with a grant element equivalent of 35 percent or more. The grant element of a debt is the difference between the present value (PV) of the debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose is 5 percent. The debt refers also to commitments contracted or guaranteed and for which value has not been received. The calculation of 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

Definitions

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

exchange rates as described in paragraph 9. Thus calculated, the stock of net international reserves in convertible currencies amounted to US\$1,914 million on March 31, 2014. Net international reserves including deposits of commercial banks in foreign currency amounted to US\$1,943 million on March 31, 2014.

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

Adjustors

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

Ceiling on the net domestic assets of the NBKR

Definitions

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

14. Thus defined, NDA consist of: (a) net claims to the general government from the NBKR; (b) net claims to other 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 20,010 million on March 31, 2014.

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.

III. Reporting Requirements Under the Arrangement

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

A. The Balance Sheet of the NBKR

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

B. Monetary Survey

30. Monthly banking system data, in the form of monetary surveys of the banking sector and other depository corporations, will be reported to the IMF by the NBKR within 16 days of the end of

the month. The information provided will clearly identify the following items: net foreign assets and net domestic assets of the banking system, medium- and long-term liabilities, net credit from the banking system to the general government disaggregated by the state government, the social fund and the KRDF, net claims to the rest of the economy, other items net, and broad money. The monetary survey will be provided using both program and actual exchange rates.

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

C. International Reserves and Key Financial Indicators

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

D. External Debt

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

E. Budgetary and Extra Budgetary Data

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

F. Balance of Payments Data

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

G. Other General Economic Information

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

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

	<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
NOK	Norwegian Crown	5.8218	0.1718
SEK	Swedish Crown	6.7098	0.1490
XAU	Gold (US\$/troy ounce)	1405.5000	...

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

	2013 1/	2014 1/	
	December	March	June
Program grants	114.9	30.2	30.2
Program loans	80.3	0.0	48.4
Public investment program loans	305.0	13.9	102.8
Amortization of public external debt	43.6	9.1	18.2
Interest payments	34.1	8.8	20.9

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