International Monetary Fund

Kyrgyz Republic and the IMF

Press Release:
IMF Executive Board Completes Third Review Under the Kyrgyz Republic's PRGF Arrangement and Approves US$1.9 Million Disbursement
November 3, 2006

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Kyrgyz Republic: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

October 17, 2006

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

Bishkek, Kyrgyz Republic

October 17, 2006

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. de Rato:

1. In February 2005, the IMF Executive Board endorsed the Kyrgyz Republic's three-year economic program, and approved a new Poverty Reduction and Growth Facility (PRGF) arrangement in support of that program. The second review under the program was concluded in May 2006 on a lapse-of-time basis.

2. On behalf of the government of the Kyrgyz Republic, we hereby transmit the attached Memorandum of Economic Policies (MEP), which includes program understandings reached with the IMF, describes in detail the implementation of the program to date, and sets out the objectives and policies that the government intends to pursue through end-2007. The MEP is consistent with the revised Country Development Strategy (CDS) that is expected to be finalized shortly. The government intends to make the contents of this letter and those of the attached MEP and its Technical Memorandum of Understanding (TMU), as well as the staff report on the third review under the PRGF arrangement and Article IV consultations, available to the public, and authorizes the staff to arrange for them to be posted on the IMF website after completion of the review by the Board.

3. The fourth review under the arrangement is expected to be completed on or after February 15, 2007 and the fifth review on or after August 15, 2007. As noted in Table 1, we have observed all the quantitative performance criteria for end-June 2006. However, a structural performance criterion on the transfer of the Centerra shares held on behalf of the nation by Kyrgyzaltyn JSC (a state enterprise) to the State Property Fund was not completed on time. We have since taken steps to prohibit the sale of Centerra shares without authorization from the government, as well as to ensure that the proceeds from any sale of these shares will be utilized strictly in accordance with government instructions. We are therefore requesting a waiver for nonobservance of this criterion. Quantitative performance

criteria, indicative targets and structural benchmarks through end-June 2007 are set out in Tables 2 and 3 of the MEP. We request disbursement of the SDR 1.27 million tranche available upon Board completion of the third review.

4. The government of the Kyrgyz Republic will provide the Fund with such information as the Fund may request in connection with progress in implementing the economic policies and achieving the objectives of the program. The government believes that the policies and measures set forth in the MEP are adequate to achieve the objectives of the program, but will take further measures to that end if deemed necessary. During the implementation of the current arrangement, the Kyrgyz Republic will consult with the Managing Director on the adoption of any measures that may be appropriate, at the initiative of the government or whenever the Managing Director requests such a consultation.

Very truly yours,

/s/	/s/
Feliks Kulov Prime Minister Kyrgyz Republic	Marat Alapaev Chairman National Bank of the Kyrgyz Republic

Memorandum of Economic Policies for the Kyrgyz Republic

I. RECENT ECONOMIC PERFORMANCE

1. The government's economic program for 2005–08, supported by the Poverty Reduction and Growth Facility (PRGF) arrangement approved by the IMF Executive Board in February 2005, aims to achieve sustained and rapid economic and social development in a low-inflation environment. This Memorandum reviews program implementation to date and describes our policies for 2007, as well as the thrust of our economic strategy for the remainder of this administration.

2. The government has successfully maintained macroeconomic discipline and adhered to the PRGF-supported program thus far in 2006. All end-June quantitative performance criteria (PCs) were observed, in some cases with ample margins, and all structural benchmarks through end-September were met (Tables 1 and 3). The government has taken corrective measures to achieve the original purpose of the end-June structural PC on the transfer of Centerra shares from Kyrgyzaltyn JSC to the State Property Fund.

3. Economic developments in the year-to-date have been encouraging. Inflation (5.1 percent in the 12 months ending in August) has remained broadly in line with the program, economic activity has begun to rebound, and the buildup in foreign reserves has been faster than expected. In particular, real GDP grew by 3.5 percent year-on year during January–August led by the agricultural and nongold industrial sectors, while output growth excluding the Kumtor mine was even higher at 6.6 percent, broadly in line with the trend in recent years. Despite rising nongold exports, the external trade deficit widened in the first half of 2006, driven by a rapid increase in imports sparked by the budding economic recovery and rising world fuel prices (an improvement in the statistical coverage of shuttle trade also played a part). Buoyed by workers' remittances and private capital inflows, gross reserves rose steadily, to $690 million by late September (or 4 months of projected 2007 imports of goods and services). For 2006 as a whole, we expect to meet the program's inflation target (5.7 percent), but due to a serious accident at Kumtor last July, we have scaled back our real GDP growth forecast to around 4 percent.

4. Year-to-date fiscal performance has been better than envisaged. This has resulted partly from buoyant import and income tax receipts underpinned by steadfast implementation of the new customs code, along with renewed efforts to curb evasion. Despite a faster-than-expected increase in current spending, mainly on wages and on goods and services, total spending has remained in line with the program owing to delayed execution of the investment budget. Robust payroll tax collections have allowed the Social Fund to clear all of its arrears, making nation-wide pension payments current despite a 2 percentage-point payroll tax reduction last January. In all, the half-year target for the primary balance before grants was met by a margin of about 1 percent of GDP. Based on preliminary results through

the third quarter and the supplementary 2006 budget to be sent to parliament in early October, we expect to comfortably meet the program's full-year fiscal target (a primary deficit of 3¼ percent of GDP). Recognizing the importance of fiscal sustainability, the government will seek prompt passage of the pending bill to increase nonagricultural land taxes to ensure broad revenue neutrality of the 2006 tax reform package as programmed. To pave the way for medium-term fiscal consolidation, the government will make every effort to secure parliamentary approval of the new tax code bill by end-March 2007 (a structural benchmark under the program). Moreover, despite political pressures, it will adopt appropriate measures in order to continue to broaden the coverage of the Large Taxpayer Unit (LTU).

5. Since early 2006, monetary policy has been conducted in an environment of stronger-than-expected foreign exchange receipts and continued remonetization of the economy. In these circumstances, the NBKR conducted sizable unsterilized intervention in the foreign exchange market, though allowing the som to appreciate by 4.7 percent against the U.S. dollar since the beginning of the year (in real effective terms, the som appreciated by about 5 percent over the past 18 months). In addition, the NBKR has gradually increased policy interest rates, which are now positive in real terms, while the yield curve has returned to a more normal, upward-sloping pattern. Although reserve money increased by 40 percent in the 12 months ending September 2006—well above expectations—and the expansion in banking system credit to the private sector (albeit from a low base) has accelerated since the beginning of the year, inflation has remained in line with the program.

6. Financial sector reforms remain on track. To further enhance bank supervision, the NBKR has established the supervisory framework to assess market, operational, country and foreign exchange risks, and is improving its ability to stress-test banks. The activities of the new Agency for Financial Surveillance and Reporting will be clearly demarcated to avoid an overlap with those of the NBKR. Every effort will be made to secure approval of legislation before parliament to enhance the NBKR's legal independence and legal protection for its employees in performing official duties (an end-December structural benchmark). Parliament has already passed legislation to combat money laundering and financing of terrorism, and the Financial Intelligence Unit is drafting the corresponding amendments to the criminal code and other relevant legislation. As envisaged in the program, we will bring the Kyrgyz Agricultural Finance Corporation (KAFC) to the point of sale and issue a privatization tender for the company by end-2006.

7. The program's half-year target for the energy sector's quasi-fiscal deficit (QFD) was met with some margin, owing to a rise in cash collections of the distribution utilities. For the year as a whole, the government expects the QFD to decline to 5.9 percent of GDP, from 7.6 percent in 2005 (both estimates based on the original marginal cost benchmark of 2.3.U.S. cents per kilowatt/hour), on the back of the unification of household power tariffs last May and further efforts to bolster cash collections and curtail technical losses and theft;

using the updated benchmark of 2.66 U.S. cents per kilowatt/hour agreed upon with the World Bank, the QFD would decline from 8.8 percent in 2005 to 7.4 percent in 2006.

II. Program Objectives and Economic Policies for 2007

8. Our economic adjustment and reform program for the remainder of this administration is consistent with the Country Development Strategy (CDS), which extends the national poverty reduction strategy to 2010, and the Country Assistance Strategy being developed jointly by the World Bank, the Asian Development Bank, and other donors. To alleviate poverty and foster private sector-led growth, the government will maintain macroeconomic stability and remove structural bottlenecks (particularly by improving the business climate through better governance and transparency, civil service reforms, and the establishment of an appropriate legal and regulatory framework), while minimizing its direct intervention in the economy.

9. For 2007, our economic program aims at securing real GDP growth of 5.5 percent, limiting end-period inflation to a range of 4.5–5.0 percent, and slightly increasing the import coverage of gross foreign reserves. Despite a rising fuel import bill, the external current account deficit would narrow to 9¾ percent of GDP from an estimated 11 percent in 2006, on the back of a rebound in export volumes and sustained workers' remittances, and it would be fully financed by FDI, other private inflows, and concessional assistance from the Fund and other donors. To achieve these objectives, we will continue to pursue prudent fiscal and monetary policies and seek to further reduce the quasi-fiscal deficit of the electricity sector. The general government primary balance before grants will be limited to just under 3 percent of GDP, with an overall deficit of a similar magnitude covered entirely from external sources and privatization proceeds. Moreover, the NBKR will set limits on the expansion of its net domestic assets, consistent with a slowdown in reserve money growth to 22½ percent by year's-end and a further foreign reserve buildup to keep gross reserve coverage at 4¼ months of projected 2008 imports of goods and services (Table 4). We will also intensify structural reforms to enhance the prospects for sustained growth and poverty reduction, and have accordingly established structural benchmarks on certain financial sector and public financial management reforms through end-June 2007 (Table 3).

10. In order to lighten the burden of the Kyrgyz Republic's external debt and free resources for priority spending, the government is seeking to introduce a comprehensive debt reduction effort. This includes a request, subject to agreement on detailed conditionality triggers, for relief under the enhanced Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). A comprehensive set of measures should help improve living standards and accelerate progress towards achieving the Millennium Development Goals. This would include measures to enhance governance and transparency, improve the business climate, foster the development of agriculture and infrastructure, reform the energy and mining sectors, bolster public financial management, and spur

economic growth and human development. In order to reflect the interim assistance that will be provided under the HIPC Initiative upon reaching the Decision Point (tentatively, at the turn of the year), the quantitative performance criteria for end-June 2007 established herein will be revised, as needed, at the time of the 4^{th} review under the program to reflect the utilization of these resources.

11. We plan to gradually divest the country's equity in the Centerra mining conglomerate (equivalent at present to some $310 million or about 11.2 percent of GDP). This, in synergy with the fiscal space from debt relief and large projects financed by FDI or private sector borrowing from neighboring countries, is expected to significantly enhance growth prospects. In April 2006, the government issued a resolution prohibiting the sale of Centerra shares without government authorization and specifying that the proceeds from any sales of these shares will be used strictly in accordance with guidelines set by the government. Going forward, the government is determined to harness these resources for productive uses in a manner consistent with macroeconomic stability and absorptive capacity. In this vein, the government will specify —in consultation with parliament—the annual receipts from any sales of Centerra shares to be channeled, through the central government budget, either through the public sector investment program or as net lending to the financial sector (possibly under an investment or development fund). To safeguard macroeconomic stability and the soundness of the banking system, these operations will be fully integrated into the PRGF-supported economic program, including the annual government budget (where they will be treated as net lending or investment outlays) and the monetary program. More immediately, the level and quarterly phasing of these resources and any adjustments that may be warranted to the program for 2007 described in this Memorandum will be reviewed at the time of the 4^{th} review under the PRGF arrangement in early 2007.

A. Fiscal Policy

12. Fiscal discipline has become firmly entrenched over the past several years and will be maintained to underpin low inflation and debt sustainability. While the need to improve social services and infrastructure is pressing, we will carefully prioritize public outlays and strengthen expenditure controls. We will continue to intensify the tax effort by steadfastly improving tax and customs administration and curbing evasion. General government tax receipts are targeted to rise to 20½ percent of GDP in 2007, reflecting the full-year effect of the increase in the nonagricultural land tax rates envisaged in late 2006 and further efforts to strengthen tax enforcement; these measures would more than offset the effect of a 2 percentage-point reduction in the payroll tax (implemented in two steps in April and October) during the year, to 27 percent, bringing it closer to the 25 percent medium-term target. Outlays (excluding net lending) will be capped at 28½ percent of GDP, consistent with an average 10 percent increase in government wages and a rise in central government investment to 4½ percent of GDP. After the envisaged approval of the HIPC Initiative Decision Point by the Executive Boards of the IMF and the World Bank, we will propose a

supplementary budget to parliament reflecting the fiscal space created by interim HIPC Initiative assistance. We also count on a scaling up of concessional external aid, following a consultative group meeting we plan to convene in Bishkek in the coming months.

13. The 2007 budget will also feature a 10 percent average increase in pensions, with an increase in the base pension component in January to bring it to the statutory level of 12 percent of last year's wages. The Social Fund will not make any unprogrammed drawdown in its deposits to finance pension increases beyond those already programmed, and in the event that its revenues significantly exceed expectations, it will then give priority to bringing forward the payroll tax cuts scheduled for April and October 2007. The government reaffirms its commitment not to lower the retirement age, recognizing that any reduction would be inconsistent with the long-term financial sustainability of the pension system. Instead, it will forge a broad-based internal consensus on a comprehensive reform of the pension system to be designed with World Bank assistance, including the phased introduction over a number of years of a fully funded pillar (premised on establishment of an appropriate legal and regulatory framework and development of suitable asset classes that would ensure the security of the funds deposited), as well as a streamlining of social benefits and a broadening in the coverage of social safety nets. This far-reaching reform could include the option of early retirement with reduced pension benefits or an increase in the minimum years of contributions for those seeking retirement.

14. The new Medium-Term Budgetary Framework (MTBF) published in May 2006 outlines the strategy for developing health, education, social protection, agriculture, and transport and communication, along with the broad criteria for identifying sectoral priorities and deepening fiscal decentralization. This should enable better medium-term policy formulation and coordination among ministries, help operationalize the CDS, and provide a sound foundation for annual budget preparation. To focus spending on poverty reduction, a new classification of poverty reducing spending will be included in the next MTBF. In addition, the government will streamline the State Tax Inspectorate (STI) office network, and increase the staff of the LTU, while raising its status to align it with other units that directly report to STI management. The government has prepared an action plan for bolstering public financial management, and continues to refocus reform efforts and enhance the annual budgetary process; this plan will dovetail with the MTBF published in May 2006 and the CDS that will be finalized later this year.

15. In line with a law passed by parliament in 2003, the government is poised to add momentum to fiscal decentralization from 2007, with a view to converging over time to a two-tier system comprising local communities (*aiyl okomotus*) and the central government. The process will be managed carefully to safeguard macroeconomic stability, delineate clear revenue-sharing provisions and expenditure responsibilities at each tier, build local government capacity, and eliminate local government interference in the appointment of senior management staff of local tax offices and local branches of the ministry of economy

and finance. Extensive technical assistance and consultation on key policy issues with the World Bank and other expert agencies will help align the implementation of fiscal decentralization with international best practice.

B. Energy Sector and Quasi-Fiscal Issues

16. As envisaged in the program, the government has submitted in September 2006 an energy sector action plan designed in cooperation with the World Bank. The plan aims to put the sector's financial position on a sound footing, while delivering reliable power supplies for domestic consumers and creating the basis for significant energy exports. To that end, the authorities will seek to bolster utility bill collections, reduce technical losses and theft, increase private sector participation in the sector, and they will adjust electricity tariffs under a preannounced calendar to reach cost-recovery tariff levels by 2010. In this vein, and according to the updated tariff methodology agreed by the authorities with the World Bank, the sector's QFD (an indicative target under the program) is slated to decline to about 5.5 percent of GDP in 2007, from an estimated 7.4 percent this year. As was the case with the unification of the household tariffs earlier this year, future power tariff adjustments will continue to be accompanied by social safety nets to mitigate their effects on the poorer segments of the population.

C. Monetary and Financial Sector Policies

17. Price stability continues to be the overarching objective of the NBKR. The monetary program for 2007, which is premised on further remonetization of the economy and seeks to contain end-period inflation to a range of 4.5–5.0 percent, limits reserve money growth to 22½ percent consistent with broad money growth of 24 percent during the year. To keep liquidity expansion in check, the NBKR will enhance the menu of monetary control instruments, price these instruments flexibly, and maintain the managed exchange rate float. The central bank will limit foreign exchange intervention to smoothing exchange rate fluctuations and securing the programmed international reserve buildup.

18. The NBKR will deepen financial sector reforms with technical advice from the IMF and other donors. It has already introduced a phased increase in the minimum own-funds requirement for banks, to som 60 million ($1.5 million) in January 2006 and som 100 million ($2.5 million) from January 2008. In light of a modest rise in the ratio of nonperforming loans to total commercial bank loans from end-2004 to mid-2006, and partly in response to the NBKR's instructions, commercial banks have increased loan provisioning. Going forward, and in anticipation of a further rapid increase in credit to the private sector, the authorities will step-up bank supervision, especially by closely monitoring financial soundness indicators and taking timely corrective measures if credit quality deteriorates further. The NBKR will continue to take steps to improve the payments system, including through electronic payment of all public wages and introduction of real time gross settlement

and batch clearing systems. The NBKR will also continue to monitor developments and strengthen supervision over nonbank financial institutions according to its current legal responsibilities, seeking particularly to foster orderly development of microfinance.

19. The NBKR is poised to introduce a deposit insurance scheme for small depositors by late 2008, and after passage of enabling legislation in the next several months, the NBKR will communicate to banks the prudential requirements and statutory thresholds on profitability, liquidity and risk levels for their bank participation in the scheme. Conservatorship and subsequent liquidation of troubled banks will continue to be guided strictly by the current legislation on conservatorship, liquidation and bankruptcy of banks. To foster mortgage and other term lending, the government will submit to parliament amendments (drafted by the NBKR) to the civil, housing and land codes, as well as to all the laws governing collateral, strengthening the legal foundations for the use and for the seizure of collateral in cases of default. It will also seek amendments to the civil code to recognize the supremacy of banking legislation in cases of conflict with other laws, and implement regulations for consolidated bank supervision that adequately monitor risks. The NBKR plans a phased transition to international capital measures and standards under Basel-II guidelines, after careful consideration of all prerequisites for its successful adoption and further implementation of the recommendations made in the 2005 assessment of the Basel Core Principles for Effective Banking Supervision. The financial sector development program will be updated and streamlined in light of the recommendations of the joint IMF/World Bank mission that updated the Financial Sector Assessment Program (FSAP) in October 2006.

20. To foster development of the securities market, the volume of government securities available to banks will be further increased. As part of the ongoing phased redemption of government bonds, som 180 million of NBKR-held bonds were redeemed last April, and a further som 200 million will be redeemed in 2007. To reduce the domestic interest cost to the budget, the government will effect the early redemption of som 500 million in its liabilities to the central bank in the next several months. The ministry of economy and finance and the NBKR will propose a specific action plan to simplify the nomenclature of debt instruments, drawing on recommendations of a recent IMF technical assistance mission. At the same time, the authorities will ensure that any further restructuring of government liabilities to the NBKR will not adversely impact the balance sheet of the NBKR.

D. Other Structural Reforms

21. As stressed in the new CDS, eradicating corruption and fostering rapid private sector-led growth and poverty alleviation remain top national priorities. The government is working closely with stakeholders and donors on policies to bolster fiscal management; improve the efficiency and transparency of the mining sector; and address the nexus of governance and business climate issues. Besides deepening civil service reform, the government will further

strengthen institutions tasked with fighting corruption, while toughening law enforcement; reducing opportunities for bribes and rent-seeking, and increasing transparency in public sector operations. Moreover, the government will continue to simplify licensing procedures, streamline regulatory bodies, improve the autonomy and efficacy of the judiciary, and strengthen property rights.

22. The State Committee for Migration and Employment has reviewed the labor code and recommended amendments to simplify hiring procedures. The authorities are considering further measures to improve labor market flexibility, such as liberalizing provisions on reduced working hours and job sharing. They have also approved a national employment policy through 2010 that includes other forms of flexible employment, such as temporary public works programs and creation of employment opportunities for youths, women and the disabled. Enabling regulations for these flexible forms of employment are being prepared in consultation with the International Labor Organization (ILO). Progress in these areas will be discussed at the time of the 4th review under the arrangement.

E. External Debt Management

23. While negotiations to attract large externally financed investments to the Kyrgyz Republic, especially in infrastructure, industry and mining, are well advanced, the public sector will continue to refrain from borrowing or guaranteeing external loans on nonconcessional terms. In addition, any concessional external loans contracted or guaranteed by the public sector will continue to satisfy the minimum 45 percent grant element specified in the program.

24. As it seeks external debt relief, the government continues to attach utmost importance to safeguarding external debt sustainability, and it will further enhance external debt management institutions and procedures. In particular, it will adopt a new medium-term external debt management strategy (treated as an end-March 2007 structural benchmark), building on the earlier one designed in 2001; the strategy will include maintaining the 45 percent floor on the grant element required on all new public borrowing, and requiring local governments and public enterprises to obtain prior authorization from the ministry of economy and finance to contract any external loans. In addition, the ministry of economy and finance will build capacity on debt management issues; collect loan-by-loan data on public enterprise debts that have hitherto not received government guarantees; and introduce prudential guidelines for issuance of letters of guarantees on concessional external loans.

F. Program Monitoring

25. The program will continue to be monitored through semi-annual reviews. For that purpose, we propose quantitative PCs for end-June 2007, an indicative macroeconomic program through end-2007, and semi-annual indicative targets for reserve money and the electricity sector's QFD. We have also proposed structural benchmarks for March and June

2007 (Table 3). Completion of the fourth review under the PRGF arrangement, scheduled for spring 2007, will require observance of the end-December 2006 quantitative PCs shown in Table 2. Quantitative PCs, program adjustors, data sources, and reporting requirements are defined in the attached Technical Memorandum of Understanding.

Table 1. Kyrgyz Republic: Quantitative Program Targets for 2005–06 1/

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

	2005	2006						
	December PCs	March Indicative targets		June PCs			September Indicative Targets	December PCs
	Actual	EBS/06/60	Actual	EBS/06/60	Adj. Target 2/	Actual	EBS/06/60	
I. Performance criteria								
1. Floor on net international reserves of the NBKR in convertible currencies (eop stock, in millions of U.S. dollars)	416	367	412	412	396	452	413	457
2. Ceiling on net domestic assets of the NBKR (eop stock)	-1,943	-1,566	-1,869	-1,752	-1,055	-1,756	-1,413	-1,469
3. Ceiling on cumulative primary deficit (excluding grants) of the general government	2,757	1,099	61	1,377	…	140	2,541	3,701
4. Cumulative floor on state government tax collections in cash	16,361	3,599	4,063	7933	…	8,742	12,512	17,650
5. Ceiling on the stock of central government budget arrears	0	0	0	0	…	0	0	0
6. Ceiling on the stock of Social Fund pension arrears	0	0	0	0	…	0	0	0
7. Cumulative floor on payroll collections in cash of the social fund	4,912	1,100	1,250	2,292	…	2,553	3,430	4,823
8. Ceiling on the stock of social fund arrears to the Medical Insurance Fund	0	0	0	0	…	0	0	0
9. Ceiling on contracting or guaranteeing by the state government, NBKR or any other agency acting on behalf of the state government, of new external debt with maturity of less than one year (continuous, in millions of U.S. dollars)	0	0	0	0	…	0	0	0
10. Ceiling on contracting or guaranteeing by the state government, NBKR or any other agency acting on behalf of the state government, of new nonconcessional external debt with maturity of one year or more (millions of U.S. dollars)	0	0	0	0	…	0	0	0
11. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	0	…	0	0	0
II. Indicative targets								
1. Ceiling on reserve money (eop stock)	15,466	13,750	15,348	15,549	…	16,965	15,905	17,708
2. Ceiling on the cumulative quasi-fiscal deficit of the electricity sector (in millions of soms)	7,609	...	...	3745	…	3,701	...	6,509
3. Ceiling on contracting or guaranteeing by the state government or NBKR of new concessional external debt (in millions of U.S. dollars) 3/			(as specified in paragraph 30 of the TMU attached to EBS/06/60)					

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

1/ Definitions are provided in the Technical Memorandum of Understanding.

2/ Targets adjusted for the nondisbursement of the EU food security grant ($4.8 million in Q1), the ADB grant ($7.8 million in Q2), and the EU health sector SWAP grant ($4.0 million in Q2).

3/ New concessional loans during the year.

Table 2. Kyrgyz Republic: Quantitative Program Targets for 2006–07 1/

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

	2006	2007			
	December	March Indicative Target	June PC	September Indicative Target	December Indicative Target
	Proj.	Proj.	Proj.	Proj.	Proj.
I. Performance criteria					
1. Floor on net international reserves of the NBKR in convertible currencies (eop stock, in millions of U.S. dollars)	518	572	594	638	661
2. Ceiling on net domestic assets of the NBKR (eop stock)	-2,034	-1,958	-1,465	-1,893	-2,097
3. Ceiling on cumulative primary deficit (excluding grants) of the general government	3,221	589	1,130	2,285	3,461
4. Cumulative floor on state government tax collections in cash	18,431	4,236	9,238	14,634	20,671
5. Ceiling on the stock of central government budget arrears	0	0	0	0	0
6. Ceiling on the stock of Social Fund pension arrears	0	0	0	0	0
7. Cumulative floor on payroll collections in cash of the Social Fund	4,945	1,373	2,706	4,053	5,421
8. Ceiling on the stock of Social Fund arrears to the Medical Insurance Fund	0	0	0	0	0
9. Ceiling on contracting or guaranteeing by the state government, NBKR or any other agency acting on behalf of the state government, of new external debt with maturity of less than one year (continuous, in millions of U.S. dollars)	0	0	0	0	0
10. Ceiling on contracting or guaranteeing by the state government, NBKR or any other agency acting on behalf of the state government, of new nonconcessional external debt with maturity of one year or more (millions of U.S. dollars)	0	0	0	0	0
11. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	0	0
II. Indicative targets					
1. Ceiling on reserve money (eop stock)	19,642	20,617	22,038	23,351	24,065
2. Ceiling on the cumulative quasi-fiscal deficit of the electricity sector (in millions of soms)	…	…	3,822	…	6,633
3. Ceiling on contracting or guaranteeing by the state government or NBKR of new concessional external debt (in millions of U.S. dollars) 2/	…	(as specified in the revised TMU attached herewith)			

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

1/ Definitions are provided in the Technical Memorandum of Understanding.
2/ New concessional loans during the year.

Table 3. Kyrgyz Republic: Structural Conditionality

I. March–December 2006

Structural benchmarks for end-March 2006

- Prepare, in close cooperation with the Fund staff, an action plan for the State Tax Inspectorate to streamline its operations, retrench redundant personnel, and introduce a merit-based pay system. [Observed]

Structural benchmarks and performance criteria (*) for end-June 2006[1]

- Develop a supervisory framework for market, country, and transfer risk as recommended by the September 2004 technical assistance mission of the IMF's Monetary and Financial Systems Department. [Observed]

- Establish an independent audit committee to oversee the external and internal audit functions of the NBKR as recommended by the Safeguards Assessment Report conducted by Finance Department in 2005. [Observed]

- The government will take the appropriate legal steps (accompanied by enabling regulations) to transfer the Centerra shares currently owned by KyrgyzAltyn JSC to the State Property Fund.* [Not Observed]

Structural benchmarks for end-September 2006

- Prepare an action plan to reduce the energy sector's quasi-fiscal deficit in close cooperation with World Bank staff, addressing problems of transmission and distribution losses, payment indiscipline, and tariff adjustment. [Observed]

- Expand the operation of the Large Taxpayers Unit to cover at least 60 percent of tax revenues. [Observed]

Structural benchmarks for end-December 2006

- Conduct an independent review of the NBKR's internal audit function. The review could be performed by the internal audit department of another central bank, and should include a review of the capacity of the NBKR's internal audit division, as recommended by the Safeguards Assessment Report conducted by Finance Department in 2005.

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[1] Actions labeled with an asterisk are structural performance criteria.

Table 3 (concluded). Kyrgyz Republic: Structural Conditionality

- Bring KAFC to the point of sale and issue a privatization tender for the company.
- Submit to IMF staff a report prepared by the ministry of labor and social protection recommending measures to improve labor market flexibility.
- Secure approval of legislation that has been already sent to parliament to enhance the NBKR's legal independence and ensure legal protection of its employees in performing official duties.

II. March–June 2007

Structural benchmarks for end-March 2007

- The government will submit to parliament amendments (drafted by the NBKR) to the civil, housing and land codes, as well as to all the laws governing collateral, in order to harmonize provisions on collateralized lending by financial institutions and facilitate collateral seizure in cases of default.
- Approval of the tax code bill that is before parliament.
- The government will adopt a new medium-term external debt management strategy aimed at ensuring external debt sustainability, as described in paragraph 24 of the RMEP.

Structural benchmarks for end-June 2007

- The NBKR will implement regulations for consolidated supervision to monitor risks faced by financial institutions, in line with the recommendations of the 2005 Basel Core Principles for Effective Banking Supervision Assessment.
- The government will introduce a new and detailed budget classification, based on the best practice reporting of government finances (GFS 2001), which will permit monitoring of poverty reducing expenditures in the monthly budget execution reports.

TECHNICAL MEMORANDUM OF UNDERSTANDING

1. The Kyrgyz Republic's performance during the period January 1, 2005–December 31, 2007 under the three-year PRGF-supported program will be assessed by the IMF on the basis of the observance of quantitative performance criteria and structural benchmarks. This updated memorandum and its attached tables define the quantitative performance criteria and indicative targets under program supported by the Poverty Reduction and Growth facility (PRGF) arrangement.[1] This update reflects the changes made to the program as specified in the Memorandum of Economic Policies (MEP) for the third review under the arrangement.

2. The *program exchange rate* of the Kyrgyz som to the U.S. dollar is set at som 39.5 = $1. The corresponding cross exchange rates and program gold price for 2007 are provided in Table 11. For 2006, the program exchange rate of Kyrgyz som to the U.S. dollar, and other currencies, as specified in IMF Country Report No. 06/235, remain unchanged.

I. Quantitative Performance Criteria

3. The quantitative targets (i.e., quantitative benchmarks for end-September 2006 and end-March 2007, and quantitative performance criteria for end-December 2006 and end-June 2007) presented in Tables 1 and 2 of the MEP are defined below.

Floor on net international reserves of the National Bank of the Kyrgyz Republic (NBKR) in convertible currencies

4. The program contains a floor on the stock of net international reserves of the NBKR in convertible currencies. This floor will be calculated as the difference between total gross international reserves and total international reserve liabilities of the NBKR in convertible currencies.

5. Total gross international reserves of the NBKR shall be defined as the NBKR holdings of monetary gold, holdings of SDRs, any reserve position in the IMF, and any holdings of convertible currencies in cash or with foreign banks, and debt instruments (including accrued interest). Amounts pledged as collateral or in swaps or otherwise blocked, 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

[1] Central government and republican government are synonymous in this memorandum. State government comprises central and local governments. General government comprises the state government and the Social Fund.

value of foreign currency denominated NBKR off-balance sheet claims on nonresidents and foreign currency obligations to both residents and nonresidents. In addition, net claims on other Commonwealth of Independent States (CIS) countries are excluded from the floor. For program monitoring purposes, gross international reserves shall be valued at program exchange rates and gold prices.

6. Total international reserve liabilities of the NBKR in convertible currencies shall be defined as outstanding liabilities to the IMF and other convertible currency liabilities to nonresidents with an original maturity of up to and including one year. For program monitoring purposes, total international reserve liabilities shall be valued at the program exchange rates as described in paragraph 2 above. Thus calculated, the stock of net international reserves in convertible currencies amounted to $416 million as of December 31, 2005.

7. The program floors on the NIR of the NBKR in convertible currencies are reported in Table 1 below.

Table 1. Floors on NIR of the NBKR in Convertible Currencies 1/

(In millions of U.S. dollars)

March 31, 2006 (benchmark)	367
June 30, 2006 (performance criterion)	412
September 30, 2006 (benchmark)	413
December 31, 2006 (performance criterion)	457
March 31, 2007 (benchmark)	572
June 30, 2007 (performance criterion)	594

1/ End-of-period stocks.

8. The floor on net international reserves of the NBKR will be adjusted:
(a) upward/downward by 100 percent for any excess/shortfall in net foreign financing defined in paragraph 9 below; (b) upward by 30 percent for any nonprogrammed cash grants; and (c) upward/downward by 100 percent for any excess/shortfall in cash privatization receipts in foreign exchange. Valued at the program exchange rate, the program cash privatization receipts are equivalent to $5 million in each of the fourth quarter of 2006 and 2007. The total adjustment in respect of adjustors (a) and (c) is to be limited to $25 million, valued at the program exchange rate.

9. ‘Net foreign financing and cash grants’ is defined as balance of payment support loans, plus cash grants to the state government budget, plus any changes in the balance of unused PIP funds held at the NBKR, minus amortization (excluding repayments to the Fund) and interest payments on external debt made by the ministry of economy, and NBKR. This definition applies to the adjustors to both the NIR and the NDA. The program cumulative net foreign financing is given in Table 2. The balance of unused PIP funds was equivalent to \$0.03 million as of December 31, 2005.

Table 2. Projected Net Foreign Financing and Cash Grants 1/

(In millions of U.S. dollars)

March 31, 2006	0.8
June 30, 2006	3.9
September 30, 2006	1.6
December 31, 2006	18.4
March 31, 2007	7.7
June 30, 2007	0.5

1/ Cumulative from the beginning of the calendar year.

Ceiling on the net domestic assets of the NBKR

10. Net domestic assets of the NBKR are defined as reserve money of the NBKR (defined below), minus the NBKR’s net foreign assets,[2] minus the medium- and long-term NBKR obligations (MLT), minus the counterpart of the loan by the Eximbank of Turkey, minus the counterpart of the EBRD and IDA enterprise loans (Equation 1).

(1) NDA=RM–NFA–MLT–Turkish Loan–EBRD-IDA Enterprise Loan

11. Thus defined, the NBKR’s net domestic assets consist of: (a) gross credit to the general government from the NBKR, minus deposits of the general government with the NBKR, minus the counterpart of the loan by the Eximbank of Turkey; (b) gross credit to domestic banks by the NBKR, minus the counterpart of the EBRD and IDA enterprise loans; and (c) all other net assets of the NBKR (other items net). Thus defined, the stock of the NBKR’s net domestic assets amounted to minus som 1,943 million on December 31, 2005.

12. The program ceilings on the NDA of the NBKR are reported in Table 3 below.

[2] The NBKR’s net foreign assets consist of net international reserves, as defined in this TMU, plus other foreign assets, plus the net claims on other CIS countries.

Table 3. Ceilings on the NDA of the NBKR 1/

(In millions of soms)

March 31, 2006 (benchmark)	-1566
June 30, 2006 (performance criterion)	-1,752
September 30, 2006 (benchmark)	-1,413
December 31, 2006 (performance criterion)	-1,469
March 31, 2007 (benchmark)	-1,958
June 30, 2007 (performance criterion)	-1465

1/ End-of-period stocks.

13. The ceiling on net domestic assets of the NBKR will be adjusted: (a) downward/upward by 100 percent of the excess/shortfall in net foreign financing of the state government budget; (b) downward by 30 percent for any nonprogrammed cash grants; and (c) downward/upward by 100 percent of the excess/shortfall of cash privatization receipts. The total adjustment for shortfalls in adjustors (a) and (c) is to be limited to \$25 million, valued at the program exchange rate.

Ceiling on the cumulative primary fiscal deficit (before grants) of the general government

14. The general government primary fiscal deficit before grants is defined as the sum of: (a) the change in the stock of net claims of the domestic banking system and nonfinancial institutions—including state-owned enterprises and public companies—and households on the general government; (b) the change in the stock of net claims of the foreign banking system and nonfinancial institutions and households on the general government; (c) net privatization receipts; (d) net foreign loans disbursed to the state government for budgetary support; and (e) net foreign loans disbursed to the general government for project financing. From this total, foreign grants received by the general government and accrued interest on the general government are deducted. The fiscal balance will be measured at the program exchange rates, unless foreign currency denominated assets or liabilities are converted into domestic currency upon receipt or accrual. The ceiling of the cumulative general government primary fiscal deficit will be adjusted upward by the full amount of any excess in program foreign grants.

15. 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: (a) bank loans to the general government; (b) securities or bills issued by the general government held by banks, with the exception of those issued in relation with bank rescue operations; and (c) overdrafts on the current accounts of the general government with banks.

16. The program ceilings on the cumulative primary deficit (before grants) of the general government are reported in Table 4 below.

Table 4. Ceilings on the Primary Deficit (before grants) of the General Government 1/

(In millions of soms)

March 31, 2006 (benchmark)	1,099
June 30, 2006 (performance criterion)	1,377
September 30, 2006 (benchmark)	2,541
December 31, 2006 (performance criteria)	3,701
March 31, 2007 (benchmark)	589
June 30, 2007 (performance criteria)	1,130

1/ Cumulative beginning from the beginning of the calendar year.

Cumulative floor on state government tax collections in cash

17. Tax collections in cash correspond to the line "IV. Tax Receipts" in the Treasury Report and comprise the following categories: 1.0 tax on income and profits; 2.0 taxes on goods and services; 3.0 specific taxes on services; 4.0 taxes on property; and 5.0 taxes on international trade. Cumulative tax collections in cash include collections of tax arrears but exclude tax offsets.

18. The program floors for the cumulative state government cash tax collection are reported in Table 5 below.

Table 5. Floors on State Government Cash Tax Collections 1/

(In millions of soms)

March 31, 2006 (benchmark)	3,599
June 30, 2006 (performance criterion)	7,933
September 30, 2006 (benchmark)	12,512
December 31, 2006 (performance criterion)	17,650
March 31, 2007 (benchmark)	4,236
June 30, 2007 (performance criterion)	9,238

1/ Cumulative from the beginning of the calendar year.

Ceiling on the stock of central government budget arrears

19. For the purposes of the program, central government budget arrears are defined as an overdue payment obligation of the republican budget arising since the start of the three-year program period (January 1, 2005) and related to: (a) wages; (b) Social Fund payroll contributions; (c) mandatory transfers to the Social Fund; (d) categorical grants; (e) payments of electricity bills; and (f) allowances to poor families. A payment is defined to be overdue if it remains unpaid after its due date for (c) and (d); for 30 days after its due date for (a) and (b); for 60 days after its due date for (e); and for 40 days after its due date for (f). The program ceilings on the stock of central government budget arrears are zero at each test date.

Ceiling on the stock of Social Fund pension arrears

20. A pension payment by the Social Fund is defined as overdue if it has come due since the start of the three-year program period (January 1, 2005) and remains unpaid for 30 days or more after its due date. The program ceilings on the stock of Social Fund pension arrears are zero at each test date. No new pension arrears will be accumulated.

Floor on the Social Fund payroll tax collections in cash

21. Payroll tax collections in cash correspond to the total cash contributions collected by the Social Fund from both employers and employees for a given period.

22. The program floors for the Social Fund tax collections in cash are reported in Table 6 below:

Table 6. Floor on Social Fund Cash Payroll Tax Collections 1/

(In millions of soms)

March 31, 2006 (benchmark)	1,100
June 30, 2006 (performance criterion)	2,292
September 30, 2006 (benchmark)	3,430
December 31, 2006 (performance criterion)	4,823
March 31, 2007 (benchmark)	1,372
June 30, 2007 (performance criterion)	2,705

1/ Cumulative from the beginning of the calendar year.

Ceiling on the stock of Social Fund arrears to the medical insurance fund

23. Social Fund arrears to the Medical Insurance Fund are defined as overdue transfer obligations of the former to the latter as defined by law and refer to arrears incurred starting January 1, 2005. A transfer is defined to be overdue if the value date of any transfer obligation is more than five business days after the due date. The program ceilings on the stock of Social Fund pension arrears to the Medical Insurance Fund are zero at each test date.

Ceilings on contracting or guaranteeing of new external debt by the state government of the Kyrgyz Republic or the NBKR or any other agency acting on behalf of the state government

24. In connection with the contracting or guaranteeing of external debt by the state government of the Kyrgyz Republic, the NBKR, or any other agency acting on behalf of the state government of the Kyrgyz Republic, "debt" is understood to have the meaning set out in point 9 of the Guidelines on Performance Criteria with respect to External Debt in Fund arrangements (Decision No. 12274-00/85, dated August 24, 2000).[3]

[3] Debt is 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. Debt can take a number of forms, the primary ones being as follows: (a) 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); (b) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are

(continued)

25. External debt ceilings apply to (a) the contracting or guaranteeing of short term external debt (i.e. external debt with an original maturity of less than one year, except normal import-related credits and NBKR reserve liabilities); and (b) contracting or guaranteeing of **nonconcessional** medium- and long-term external debt (i.e., external debt with an original maturity of one year or more). Disbursements by the Fund from the PRGF Trust are excluded from the ceilings on external debt. Also excluded from these external debt ceilings is the contracting or guaranteeing of new external debt that constitutes a rescheduling or refinancing of existing external debt at terms more favorable to the debtor. The limit on the contracting or guaranteeing of short-term external debt is zero on a continuous basis throughout the period of the arrangement. The limit on the contracting or guaranteeing of medium- and long-term nonconcessional external debt is zero as specified in Table 2 of the MEP.

26. For the purposes of the ceiling on contracting and guaranteeing new external debt, any other agency acting on behalf of the state government will in particular include all nonfinancial public enterprises with share capitals of not less than Kyrgyz som 100 million in which the state government holds at least 51 percent of the share capital (The public enterprises listed in Table 12 currently meet the foregoing criteria).

Ceiling on new external payments arrears

27. For the purposes of the program, external payment arrears will consist of all debt-service obligations (i.e., payments of principal or interest) arising in respect of any debt contracted or guaranteed or assumed by the state government of the Kyrgyz Republic, or the NBKR, or any agency acting on behalf of the state government of the Kyrgyz Republic since the Kyrgyz Republic’s independence, including, without limitations, unpaid penalties, interest charges or judicially awarded damages associated with these arrears owed by the state government of the Kyrgyz Republic, or the NBKR, or any agency acting on behalf of the state government of the Kyrgyz Republic, on imports received subsequent to independence. The ceiling on new external payment arrears shall apply on a continuous basis throughout the period of the PRGF arrangement.

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provided; and (c) 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. Under the above definition of debt, 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.

II. Indicative Targets

Ceiling on reserve money

28. For the purposes of the program, reserve money consists of currency issued by the NBKR and balances on commercial banks' correspondent accounts with the NBKR. The indicative program limits are reported in Table 7 below.

Table 7. Ceilings on Reserve Money 1/

(In millions of soms)

March 31, 2006	13,750
June 30, 2006	15,549
September 30, 2006	15,905
December 31, 2006	17,708
March 31, 2007	20,617
June 30, 2007	22,038

1/ End-of-period stocks.

Ceiling on the quasi-fiscal deficit of the electricity sector

29. The quasi-fiscal deficit (QFD) of the electricity sector is defined as cost of production minus cash revenues:

(1) $QFD=Q*MC - R$;

(2) $Q = 1/(1-\ell)*(\sum Ci)$;

(3) $R = (\sum Ci) * T * Ccash$,

where:

Q is the domestic supply (generation plus import minus export) minus normative losses;

MC is the marginal cost of production required for efficient supply of Q;

R is the total cash revenue;

$\sum Ci$ is the sum of consumption by all end-users (households, industry, agriculture, budgetary institutions, and other);

ℓ is the annual average loss rate of excessive (i.e., above normative) technical and commercial losses in percent of Q;

T is the annual weighted average of posted (or nominal) tariffs for end-users; and

Ccash is the ratio of annual average cash collections to total billing to end-users.

30. For the purposes of the program, the marginal cost of production is equal to 2.3 U.S. cents per kilowatt hour for 2006 and 2.66 U.S. cents for 2007, and normative losses (including own-use) are defined as 15 percent of domestic supply. Total billing of end-users is defined as consumption times the posted nominal tariff. The cash collection component is the amount of bills paid in cash to the energy companies, and excludes any form of cash-to-cash settlements, off-sets, barters, or other noncash payments. The indicative ceiling on the quasi-fiscal deficit in the electricity sector is as follows (Table 8).

Table 8. Ceiling on Quasi-Fiscal Deficit of the Electricity Sector 1/

(In millions of soms)

June 30, 2006	3,745
December 31, 2006	6,509
June 30, 2007 2/	3,822
December 31, 2007 2/	6,633

1/ Cumulative from the beginning of the calendar year.
2/ At new cost recovery rate.

Ceiling on contracting or guaranteeing of concessional external debt

31. The annual ceiling on the contracting or guaranteeing of new concessional external debt by the state government of the Kyrgyz Republic or the NBKR or any other agency working on behalf of the state government is set by the U.S. dollar nominal sum of project loan agreements yet to be signed and agreed, plus balance of payments support loans required to fill the external financing gap, as programmed. Pursuant to monitoring this indicative target ceiling, the ministry of economy and finance will provide quarterly information on the total nominal U.S. dollar value of: (a) new project and program loans signed and agreed during the previous three-month period; and (b) new project and program loans planned, but yet to be signed and agreed, during the previous three-month period. The annual indicative ceilings on the contracting or guaranteeing of new medium- and long-term concessional external loans for 2006 are specified in Table 9.

Table 9. Annual Indicative Ceiling on Contracting and Guaranteeing of New Concessional Loans in 2006 and 2007 1/

(In millions of U.S. dollars)

With disbursements beginning in:	Contracted in	
	2006	2007
2006	30	...
2007	83	0
2008	92	0

1/ New concessional loans signed in 2006, excluding contingency amounts.

These ceilings are nominal debt lumped by the year in which their disbursements commenced. For 2006, the limit implies contracting loans of which $30 million will start disbursing in 2006, $83 million in 2007, and $92 million in 2008. The ceiling for contracting and guaranteeing new concessional loans in 2007 will be adjusted upwards by full amount of any shortfall from the ceiling for 2006.

32. For program purposes, a debt is considered concessional if the grant element is at least 45 percent, calculated by using currency specific discount rates based on the Commercial Interest Reference Rates (CIRRs) published by the OECD. The average of the CIRRs over the last 10 years will be used for debts with maturity of at least 15 years and the average CIRR of the preceding six months will be used for shorter maturities.

III. Reporting Requirements Under the Program

33. The government and the NBKR will provide the Fund with the necessary economic and financial statistical data to monitor economic developments and the quantitative targets. In particular, the government and the NBKR will provide the following specific information:[4]

The balance sheet of the NBKR

34. The NBKR will provide to the Fund its 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; 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; net credit from the NBKR to commercial banks; the balance of unused PIP funds held in the NBKR; other items net; and reserve money. The balance sheet will be provided valued at the actual exchange rate as well as according to the valuation applied under the program, as

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

specified in Section I. The above information will be provided to the IMF Resident Representative and/or transmitted by e-mail to the Fund.

Monetary survey

35. Monthly banking system data, in the form of a monetary survey, will be reported to the Fund by the NBKR within 14 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, financing provided to the rest of the economy, other items net, and broad money. The monetary survey will be provided valued at the actual exchange rate as well as according to the valuation applied under the program, as specified in Section I.

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

International reserves and key financial indicators

37. The NBKR will provide detailed monthly data within 14 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; second, at those specified in the program (Section I). In addition, weekly reports should be sent to the Fund on (a) 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 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 25th 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.

Banking system data

38. The NBKR will provide detailed bank-by-bank data within 14 days of the end of the month on commercial banks' compliance with: (a) prudential requirements as well as any penalties, sanctions and other administrative actions imposed on banks; and (b) reserve requirements on a weekly basis.

External debt

39. The ministry of economy, 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 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 economy and 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.

Budgetary and extra-budgetary data

40. In addition to the monthly treasury report, the ministry of economy and finance and the Social Fund will report monthly on all their recorded expenditure arrears, in particular on those defined above in this TMU. This information will be provided to the Fund staff within 26 days from the end of each reference month. The ministry of economy and 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.

41. The National Agency for Antimonopoly Policy and Competition Promotion (Anti-monopoly-Commission), in consultation with the ministry of economy, and the World Bank, will submit to Fund staff each March and September their semi-annual report on the electricity sector QFD according to the format specified in Table 10 below.

Balance of payments data

42. 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 two-month lag. The NBKR will also provide monthly foreign trade data with a two-month lag.

Other general economic information

43. The National Statistics Committee will notify the Fund of the monthly Consumer Price Index by category by the 5th business day of the following month, and convey quarterly GDP estimates within two months of the end of each quarter.

Table 10. Kyrgyz Republic: Electricity Quasi-Fiscal Deficit

	Period
Production (GWh) 1/	
Losses (GWh)	
Loss Rate (in percent) 2/	
Consumption (GWh)	
Tariff ($ct/kWh) 3/	
Cash Collection Rate (in percent)	
Effective Tariff ($ct/kWh) 4/	
cash effective rate	
total effective rate	
Cost Recovery Tariff ($ct/kWh) 5/	
Quasi-Fiscal Deficit	
in percent of GDP	
in $ millions	
in millions of soms	

1/ Generation plus imports minus exports minus normative losses.
2/ Excess technical and commercial losses as percent of production.
3/ Average posted tariff, calculated as quotient of total bill and consumption volume.
4/ Nominal tariff times cash collection rate
5/ Marginal costs, derived from marginal incremental capital cost.

Table 11. Program Cross Exchange Rates

	Currency Names	National Currency/US$	US$/National Currency
SDR		0.6732	1.4853
GBP	UK pound sterling	0.5271	1.8971
DKK	Danish krone	5.8357	0.1714
EUR	Euro	0.7822	1.2785
INR	Indian rupee	46.5000	0.0215
CAD	Canadian dollar	1.1259	0.8882
CNY	Chinese yuan	7.9759	0.1254
KRW	South Korean won	961.5000	0.0010
NOK	Norwegian krone	6.2186	0.1608
TRL	Turkish lira (new)	0.6778	1.4753
SEK	Swedish krona	7.2005	0.1389
CHF	Swiss franc	1.2355	0.8094
JPY	Japanese yen	115.9100	0.0083
AZM	Azerbaijani new manat	1.0854	0.9213
AMD	Armenian dram	399.6600	0.0025
BYR	Belarusian rubel	2142.0000	0.0005
KZT	Kazakh tenge	122.5800	0.0082
LVL	Latvian lats	0.5460	1.8315
LTL	Lithuanian litas	2.6772	0.3735
MDL	Moldovan lei	13.3347	0.0750
RUR	Russian ruble	26.6738	0.0375
TJS	Tajik somoni	3.3790	0.2960
UZS	Uzbek sum	1226.6300	0.0008
UAH	Ukrainian hryvnia	5.0500	0.1980
EEK	Estonian kroon	12.2388	0.0817
AUD	Australian dollar	1.1259	0.8882
	Gold ($/troy ounce)		625.0000

Table 12. List of Public Enterprises Covered under Performance Criteria on Contracting and Guaranteeing New External Debt (¶26 of the TMU).

JSC Electrical Stations
JSC National Electrical Grid of Kyrgyzstan
JSC Kyrgyzaltyn
JSC Kyrgyztelecom
JSC International Airport Manas
JSC Severelectro
JSC National Air Company
JSC Jibek Jolu
JSC Bishkek Teploset
JSC Kyrgyzneftegas
JSC Bishkek Machinery Plant
JSC Kadamjai Antimony Plant
JSC Jalal-Abadelectro
JSC Kyrgyzgas
JSC Kara Balta Mining Plant
JSC Vostokelectro
JSC Oshelectro
State JSC Kyrgyzgasmunaizat