International Monetary Fund

Kyrgyz Republic and the IMF

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

Press Release:
IMF Completes Third Review Under an ECF Arrangement with the Kyrgyz Republic, Approves US$14.6 Million Disbursement
December 3, 2012

November 14, 2012

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.

Country's Policy Intentions Documents

Letter of Intent

November 14, 2012

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

Dear Ms. Lagarde:

The second 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 April 27, 2012. We are grateful to the IMF for its continued support of our economic reform program.

The ECF-supported program continues to play a pivotal role in our efforts to maintain macroeconomic stability and promote inclusive growth in a low inflation environment. The program helped to stabilize the Kyrgyz economy and to consolidate much-needed financial support from donors following the 2010 events. The economy rebounded strongly in 2011 after political stability and security was restored. This year, however, has turned out to be challenging. The economic situation has worsened because geological factors led to the partial deferral of gold production by the largest mining company to 2013–14. Following a brief period of political uncertainty in August, the swift appointment of a new government ensured that the impact on economic policy making was limited. However, we do not expect budget support from our development partners this year because of delays in implementing structural conditions under their programs.

These challenges notwithstanding, the program remains broadly on track and the new government is committed to the reform path under the ECF arrangement. All end-June 2012 quantitative performance criteria and all but one of the structural benchmarks were met. Structural reforms continued in line with our commitments in the Letter of Intent (LOI) and the Memorandum of Economic and Financial Policies (MEFP) dated June 2, 2011 and the LOIs dated November 17, 2011 and April 12, 2012. We have adopted an instruction for introducing through the treasury management information system (TMIS) a commitment control system based on cash limits and approved the new organizational structure of the ministry of finance consistent with Fund advice. We have also completed the valuation of Zalkar bank and disseminated its sale prospectus. While we made considerable progress in drafting amendments to the anti-money laundering and combating the financing of terrorism (AML/CFT) law and the relevant provisions of the Criminal Code to strengthen the AML/CFT framework in line with the Fund's technical assistance advice, we need more time for amending the legislation and therefore ask to extend the deadline for its submission to parliament to end-December of this year.

In view of the successful implementation of the program to date and our continued commitment to the program, we request completion of the third review under the ECF-supported program and the fourth disbursement in the amount of SDR 9.514 million (US$15 million). We also request that the fourth disbursement under the ECF arrangement be channeled to the budget. Moreover, we request the modification of the end-December 2012 quantitative performance criteria to reflect the changed macroeconomic outlook, lower-than-expected external financing, and concessional terms of the second phase of the energy infrastructure loan. The government believes that the economic and financial policies set forth in our LOI and MEFP of June 2, 2011, LOIs of November 17, 2011 and April 12, 2012, supplemented with this LOI and modified quantitative performance criteria and updated structural benchmarks (see Tables 1 and 2, respectively) are adequate to meet the objectives of the program. During the period of the ECF arrangement, the Kyrgyz government will continue to maintain a policy dialogue with the Fund and stand ready to take additional measures as needed and will consult with Fund staff on such measures and in advance of revisions contained in the MEFP dated June 2, 2011, LOIs of November 17, 2011 and April 12, 2012 and this updated LOI in accordance with Fund policies.

We also note that the Medium-Term Development Program (MTDP) for 2012–14 approved in April 2012 remains the government's main economic document. The annual progress report will update the underlying macro-framework and incorporate recommendations outlined in the Joint Staff Advisory Note.

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.

Policies for the Remainder of the Year and Beyond

1. The policies and commitments set out in the LOI and MEFP dated June 2, 2011, the LOIs dated November 17, 2011 and April 12, 2012, remain valid and are updated with this LOI.

2. Macroeconomic stability remains the cornerstone of our program.

- Growth in 2012 is expected to be weak at 1 percent compared to 5 percent projected earlier because geological factors have led to a deferral of a third of this year's projected gold production to the next two years. As a result, we anticipate a strong recovery at 6.5 percent on average in the medium term.

- Headline inflation dropped sharply in the first half of 2012, but starting from August inflationary pressures reemerged with rising food and fuel prices. We will continue to keep monetary conditions tight to maintain inflation in single digits in 2012 and beyond.

- The current account deficit is projected to widen to 9 percent of GDP in 2012 from 6.3 percent in 2011, reflecting higher oil prices and lower gold exports. In 2013–14, we anticipate that a recovery of gold exports will drive the current account deficit down.

- Despite lower growth this year, fiscal consolidation is expected to continue as planned. The fiscal deficit excluding foreign-financed energy infrastructure projects is expected to decline to 2.6 percent of GDP by 2014.

- Public debt in percent of GDP is projected to remain on its downward path in the medium-term, including by the recent completion of the Russian debt relief.

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

A. Fiscal Policy

4. Shortfalls in revenues and external financing required expenditure cuts in 2012 but critical social expenditures are being safeguarded. The fiscal deficit excluding energy infrastructure projects is now forecast at 3.8 percent of GDP compared to 4.6 percent expected earlier.

- Lower gold production has led to a decline in gold-related revenues. Delays in implementing structural measures agreed with the Asian Development Bank and the World Bank, including because of the recent change in government have resulted in financing shortfalls. The revenue-smoothing arrangement with the Kumtor gold company and better-than-expected customs revenues related to higher oil imports and improved customs administration have partially offset the shortfall in revenues.

- Owing to the decline in the overall resource envelope, we reduced spending on goods and services and capital projects while maintaining social outlays. At the same time, we increased allocations for foreign-financed energy infrastructure projects mainly because of faster-than-expected implementation. Consistent with our efforts to increase fiscal transparency, we incorporated two small extra-budgetary funds and the Kumtor-financed microcredit project into the budget. These operations were deficit neutral.

5. The new government places great emphasis on fiscal consolidation in 2013 and over the medium term. The 2013 budget is guided by conservative revenue forecasts, non-priority expenditure restraint, and social considerations. The overall fiscal deficit excluding energy infrastructure projects in 2013 is expected at 3.2 percent of GDP, in line with our goal of medium-term fiscal consolidation.

- Our efforts to strengthen tax administration and reduce noncompliance will continue, including with the support from the IMF. We do not expect the exceptionally strong growth in customs revenues in 2013 to continue, leading to a decline in tax revenues in percent of GDP. We will implement a formal compliance improvement plan as an ongoing annual activity with performance indicators covering three to five sectors that pose a significant revenue compliance risk. Nontax revenues in percent of GDP are also expected to decline because of one-off payments collected during 2012 and the reform to regularize government provided fee-based services. We will consult with Fund staff on any tax policy measures to ensure that that they are consistent with our program commitments.

- We will ensure that the pension increase in 2013 is tied to the changes in the minimum subsistence level. Our draft pension reform concept paper discusses various options for making the pension system more equitable and affordable. As part of our broad consultative process, we invite our development partners to comment on the draft concept paper.

- To support our poverty reduction efforts, we raised outlays on targeted social assistance by increasing the size of the guaranteed minimum income from KGS 370 to KGS 580.

- We remain committed to reducing the overall wage bill in percent of GDP. Savings generated by the ongoing civil service reform will allow us to increase wages in segments of the public sector.

- The ongoing public procurement reform, including the planned introduction of e-procurement, will also generate significant fiscal savings by reducing outlays on goods and services.

6. We are advancing public financial management reforms. The adoption of an instruction for introducing through TMIS a commitment control system based on cash limits and a unified chart of accounts, as well as the approval of a new structure of the ministry of finance, were important steps. However, these and other reforms need to be fully realized. In particular, we will extend treasury coverage to include the social fund and introduce comprehensive cash planning, which along with the planned introduction of the treasury single account will significantly strengthen transparency and efficiency of treasury operations. We have also developed a Budget Code that consolidates all fiscal legislation into a single document with technical assistance from the World Bank. We have also incorporated comments provided by IMF staff.

7. We are committed to improving debt management and to reducing the debt service burden on the budget. We are updating our medium-term debt management strategy adopted as part of conditionality under the ECF arrangement. We will ensure that comments from Fund and World Bank staffs are reflected in the updated document. To develop the domestic debt market, we are improving the operational infrastructure for the primary market of government securities at the NBKR, which will remain the government agent for conducting primary auctions and the central depository for all government securities. To further deepen the domestic debt market we are considering various incentives for primary dealers of government securities to encourage their participation. To that effect, we will discuss any new proposals with Fund staff and are looking forward to the planned Financial Stability Assessment Program in the second half of 2013.

8. **We managed to reduce external debt vulnerabilities.** According to the recent agreement with Russia, debt in the amount of US$188.9 million will be written-off this year and the remaining US$300 million will be written-off in 2016–25. We completed intra-governmental procedures for the write-off of Turkish debt in the amount of US$49.2 million. We also successfully renegotiated the loan for the second phase of the energy infrastructure project to ensure concessionality and request to modify the debt limit by introducing a zero ceiling on contracting or guaranteeing of new nonconcessional external debt by the public sector.

9. **In light of the effectiveness of the new reporting requirements introduced for the 10 largest state-owned enterprises (SOEs) we intend to expand the coverage to 20 by end-March 2013 (structural benchmark).** Dividend payments to the budget increased because we now understand better SOEs' financial positions. The proposed expansion of the list should help mobilize additional revenues and reduce potential fiscal costs through improved monitoring. We will also ensure that all reports from these SOEs are shared regularly with the ministry of finance and the ministry of economy.

B. Monetary, Exchange Rate, and Financial Sector Policies

10. **The NBKR will maintain a tight monetary policy stance to keep inflation in single digits in 2012 and beyond**. The complete pass-through from rising international food and fuel prices to domestic prices is putting upward pressure on the overall price level. The pension increase is adding to upward pressures on core inflation. In case the food price shock this year is more permanent, the NBKR will tighten monetary policy further, to prevent second round effects. The NBKR will maintain its policy of intervening in the foreign exchange market only to smooth out excessive volatility and ensure orderly market conditions.

11. **We plan to improve monetary and foreign exchange management**. To that effect, we requested IMF technical assistance in inflation modeling and monetary tools. In particular, we need to improve near- and medium-term inflation forecasting and strengthen the monetary policy transmission mechanism. In addition, we are looking forward to IMF technical assistance to

strengthen the NBKR's capacity in international reserve management. The NBKR and the Ministry of Finance will continue the close cooperation to facilitate liquidity management.

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

- We will revise the current sales strategy of the Savings and Settlement Company (SSC) (structural benchmark) to ensure that the majority of its shares are privatized over the medium term. To that effect, we consider requesting technical assistance from our development partners. We will also ensure that the development lending funded by the government is gradually phased out and SSC's growth is effectively monitored and controlled going forward. In this regard, we are not planning any new capital injections.

- With the help from the IFC, we have completed the valuation of Zalkar Bank and prepared and disseminated the prospectus. We have announced December 11 as the auction date and are now ready to complete the sale of Zalkar Bank before end-December 2012. However, should the sale of the bank fail, we will, by end-March 2013, proceed in accordance with the relevant provisions of the law on banks and banking activity and the law on conservatorship, liquidation, and bankruptcy of banks.

- Work on the Banking Code is progressing. As of end-August 2012, a SECO-funded resident legal advisor has been assigned to work with the NBKR on the completion of the draft Banking Code and to provide training to enhance the capacity of the NBKR's legal department. In light of the recent arrival of the Legal Advisor, we request to re-phase the structural benchmarks related to the submission of the Banking Code to the government to end-April 2013 and to parliament to end-September 2013.

13. We will continue to work on strengthening the AML/CFT regime with Fund technical assistance. The September 2012 technical assistance mission discussed with us the draft provisions of the Criminal Code, the Administrative Liability Code, the Terrorist Assets Freezing Regulations, and the AML/CFT Law. The parliament has recently adopted some of the provisions of the Criminal Code. However, to ensure full compliance with international standards, more internal consultation is needed before we can submit other provisions of the Criminal Code and the draft AML/CFT Law to parliament. We therefore request to delay the relevant structural benchmark to end-December 2012.

C. Structural Policies

14. We are pressing ahead with reforms to improve governance and the business environment. Efforts to reduce public sector bureaucracy and to improve the quality and efficiency of public services are ongoing. We are working toward strengthening property rights and making efforts in combating corruption. In August, we adopted a new anticorruption law, which, among other measures, will more actively involve civil society in the implementation of the government's anticorruption strategy. In cooperation with the World Bank, the Asian Development Bank, and USAID we have developed and adopted a medium-term energy sector strategy for 2012–17. The strategy aims at improving the public administration of the sector and increasing energy efficiency and output. In addition, to move toward a financially viable energy sector, we have designed a new surcharge on electricity tariffs for servicing the debt obligations of the energy companies related to investments in transmission lines. With the aim to increase the attractiveness of the Kyrgyz Republic as a tourist destination and attracting more investment, we recently introduced a visa-free regime for citizens of 44 countries.

15. The State Development Bank (SDB) law has been recently approved by parliament. Consistent with our commitments, we will continue close cooperation with IMF staff and other donors on the set-up and operations of the SDB. We are also studying successful examples of development banks in other countries and will reflect on their experience. The government will ensure that all regulations of the SDB are consistent with international best practice and principles of good governance and transparency. All public resources to the SDB will be channeled through the budget.

D. Program Monitoring

16. The ECF-supported program will continue to be monitored through quantitative performance criteria, indicative targets, and structural benchmarks. Quantitative performance criteria and indicative targets for December 2012, March 2013, June 2013, September 2013, and December 2013 and continuous performance criteria are set out in

Table 1 and structural benchmarks are set out in Table 2. Program reviews will continue to be conducted semi-annually, based on end-June and end-December test dates. The fourth and fifth reviews are expected to take place on or after April 15, 2013, and on or after November 15, 2013, respectively. The understandings between the Kyrgyz authorities and IMF staff regarding the quantitative performance criteria and structural benchmarks described in this LOI and reporting requirements are further specified in the Technical Memorandum of Understanding (TMU) as updated in the attached.

Sincerely yours,

/s/

Zhantoro Satybaldyev

Prime Minister of the Kyrgyz Republic

/s/

Olga Lavrova

Minister of Finance of
the Kyrgyz Republic

/s/

Zina Asankojoeva

Chairperson of the National
Bank of the Kyrgyz Republic

Table 1. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, June 2012–December 2013

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

	2012								2013			
	June					September	December		March	June	September	December
	QPC					IT	QPC		IT	QPC	IT	IT
	1st Rev.	2nd Rev.	Adj.	Act.	Status	2nd Rev.	2nd Rev.	Revised				
Quantitative performance criteria 1/												
1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars)	1,678	1,635	1,611	1,725	Met	1,678	1,742	1,723	1,758	1,788	1,879	1,961
2. Ceiling on net domestic assets of the NBKR (eop stock)	-10,310	-10,368	-8,993	-16,271	Met	-10,491	-9,325	-11,633	-13,905	-11,846	-12,298	-12,330
3. Ceiling on cumulative overall cash deficit of the general government 2/	6,502	7,213	7,016	3,133	Met	12,703	18,145	17,629	920	6,486	8,939	17,855
4. Ceiling on contracting or guaranteeing of new nonconcessional external debt by public sector (continuous, in millions of U.S. dollars)	250	400	400	0	Met	400	400	0	0	0	0	0
5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars)	0	0	0	0	Met	0	0	0	0	0	0	0
Indicative Targets 1/												
1. Ceiling on reserve money	60,453	58,339	58,339	56,696	Met	60,222	64,406	63,574	62,935	66,398	70,231	74,070
2. Cumulative floor on state government tax collections 2/	26,861	26,069	26,069	29,747	Met	42,874	62,573	64,458	15,055	31,412	50,340	72,950
3. Floor on cumulative state government spending on targeted social assistance, Unified Monthly Benefit (UMB) and Monthly Social Benefit (MSB) programs 2/	1,444	1,444	1,444	1,594	Met	2,166	2,888	2,888	1,112	2,224	3,337	4,449

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

1/ As defined in the TMU.

2/ Cumulative from the beginning of the year.

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

Measure	Timing	Macroeconomic Rationale
Structural Benchmarks		
I. FISCAL POLICY		
Adopt a government resolution on the procedures for submission of budgets of the next 10 largest SOEs to be approved and monitored by the government.	End-March, 2013	Reduce fiscal risks stemming from state-owned enterprises and boost revenues from dividends.
II. FINANCIAL SECTOR		
Complete Zalkar sale	End-December, 2012	Complete resolution of Zalkar Bank.
Revise and issue a cabinet-approved SSC sales strategy that ensures the divestiture of the majority of the bank's shares over the next two years.	End-February, 2013	Reduce the government's involvement in commercial banking activity.
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	
(ii) to parliament	End-September, 2013	
In line with the Fund's TA advice, submit to the parliament draft amendments to the AML/CFT law and to the relevant provisions of the Criminal Code to strengthen the AML/CFT legal framework. These provisions include the criminalization of money laundering and terrorist financing; identification, tracing, and freezing of terrorist assets; confiscation of funds related to money laundering; and customer due diligence measures for all financial institutions.	End-December, 2012	Bring the AML/CFT legislation in line with the Financial Action Task Force standard.

Revised Technical Memorandum of Understanding

November 14, 2012

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 November 14, 2012 reflect the understandings on quantitative performance criteria reached between the authorities of the Kyrgyz Republic and staff of the IMF.

Quantitative Performance Criteria

A. Definitions and concepts

2. **Test dates.** Quantitative performance criteria are set semi-annually starting June 30, 2011 through June 30, 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 ten largest nonfinancial public enterprises (enterprises and agencies in which the government owns more than 50 percent of the shares, but which are not consolidated in the budget, as listed in Table 1), and any other newly created public development institution. The State budget comprises central and local government budgets. The general government budget includes the State and Social Fund budgets.

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

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

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

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

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

B. Quantitative performance criteria

Floor on net international reserves of the NBKR in convertible currencies [1]

Definitions

10. Net international reserves (NIR) of the NBKR. The floor on NIR will be calculated as the difference between total international reserve assets and total international reserve liabilities of the NBKR in convertible currencies. Total international reserve assets of the NBKR are defined as the NBKR holdings of monetary gold, holdings of SDRs, reserve position in the IMF, and any holdings of convertible foreign currencies in cash or with foreign banks, and debt instruments issued by nonresidents that are liquid. Accrued interest on deposits, loans, and debt securities are included in reserve assets and liabilities, correspondingly. Reserve assets pledged as collateral or otherwise encumbered, capital subscriptions in foreign financial institutions, and illiquid assets of the NBKR are excluded. Also excluded are net forward positions, defined as the difference between the face value of foreign-currency denominated NBKR off-balance sheet claims on nonresidents and foreign currency obligations to both residents and nonresidents. Total international reserve liabilities of the NBKR in convertible currencies are defined as the sum of Kyrgyz Republic's outstanding liabilities to the IMF and other convertible currency liabilities to nonresidents with an original maturity of up to and including one year. NIR is not affected when foreign assets are received by the NBKR through foreign currency swaps with resident financial institutions. Total international reserves and NIR decline with the provision of foreign assets by the NBKR through foreign currency swaps with resident financial institutions.[2] For program monitoring purposes, total international reserve assets and liabilities will be valued at the program exchange rates as described in paragraph 9. Thus calculated, the stock of net international reserves in convertible currencies amounted to US$1,638 million on December 31, 2011.

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,

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

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

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 depositary 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 14,062 million on December 31, 2011.

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 some time after the date on which the goods are delivered or services are provided; and

   iii. leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

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

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

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

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 depositary corporations.

Cumulative floor on state government tax collections

26. **Tax collections** in cash correspond to the line "Tax Receipts" in the Treasury Report and comprise the following categories: tax on income and profits; taxes on goods and services; specific taxes on services; turnover taxes; taxes on property; taxes on international trade; and other taxes. Tax collections include collections of tax arrears but exclude tax offsets.

Cumulative floor on state government spending on targeted social assistance

27. **Targeted social assistance spending** comprises state government spending on Unified Monthly Benefit (UMB) and Monthly Social Benefit (MSB) programs.

Reporting Requirements Under the Arrangement

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

A. The balance sheet of the NBKR

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

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

B. Monetary survey

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

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

C. International reserves and key financial indicators

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

D. External debt

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

E. Budgetary and extra budgetary data

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

F. Balance of payments data

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

G. Other general economic information

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

Table 1. Kyrgyz Republic: Ten largest SOEs

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

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

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

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

(In millions of U.S. dollars)

	2012 1/	2013 1/			
	December	March	June	September	December
Program grants	16.1	23.6	30.7	57.5	61.4
Program loans	2.1	3.3	6.6	35.8	39.1
Public investment program loans	127.5	19.5	66.9	93.5	191.7
Amortization of public external debt	43.1	6.7	21.1	28.1	45.1
Interest payments	39.6	9.7	13.8	25.0	35.7

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