**International Monetary Fund**

Kyrgyz Republic and the IMF

**Press Release**:
IMF Executive Board Completes the Fourth and Fifth Reviews Under the Extended Credit Facility Arrangement for the Kyrgyz Republic

December 15, 2017

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

December 1, 2017

# Appendix I. Letter of Intent

December 1, 2017

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

Dear Madame Lagarde:

We continue to make progress on a comprehensive economic and financial reform program, supported by an arrangement under the Extended Credit Facility (ECF) approved by the IMF Executive Board on April 8, 2015 (the program). We are grateful to the IMF for its continued support.

Our economy continues its recovering trend and grew by 5 percent in the first three quarters. We expect the growth momentum to extend into 2018 despite risks arising from recent tensions at the border with Kazakhstan. The recently launched Program of the Government of the Kyrgyz Republic "Jany Doorgo Kyrk Kadam" envisions far reaching structural reforms aimed at accelerating growth and making it more equitable.

The fourth review, originally scheduled in June 2017, could not be completed on time due to delay in implementing the prior action of reversing the VAT exemption on wheat and flour, and the lack of agreement on the Letter of Intent (LOI). However, we remain committed to the policies and objectives supported by the ECF arrangement. Our actions ensured that all end-December 2016 and end-June 2017 quantitative performance criteria (QPCs) were met. All but three indicative targets (IT) were met. The December 2016 IT on tax revenue was missed due to weak tax collection. The continuous IT on introducing new or renewing existing tax exemptions was also missed as financial police staff were exempted from income tax, and VAT and profit tax exemption was granted to private schools in 2017, at the initiative of Parliament. The June 2017 IT on reserve money was missed due to the rapid growth of cash outside the banks.

The delay in the fourth review also negatively affected our performance in terms of structural benchmarks (SBs). Six SBs were missed, five of which were proposed to be postponed or modified at the time of the fourth review. These are: (i) liquidation of banks under DEBRA (completed for "Kyrgyzagroprombank", pending for the other three banks due to ongoing litigations); (ii) the signing of the terms of reference for the FMIS project with the withdrawal of the foreign financing; and subsequently; (iii) the signing of the contract with the IT provider; (iv) the identification of quantitative measures to reduce the wage bill, met with a one-month delay after it was turned into a prior action; and (v) introducing a standardized framework for project monitoring of physical and financial performance for all projects exceeding 50 million soms whose deadline was proposed to be postponed to December 2017. In addition, the comprehensive register of all employees of the general government was finalized with one-month delay. The SB to submit to Parliament the amendments to the Law of the Kyrgyz Republic "On the National Bank of the Kyrgyz Republic, Banks, and Banking Activity" (the Banking Law) is not being assessed for program purpose, as these amendments were rejected by the Ministry of Justice of the Kyrgyz Republic, on the ground that the ones pertaining to judicial review were unconstitutional.

In view of the progress made and our continued commitment to the program, we request completion of the combined fourth and fifth review and disbursement in the amount of SDR 19.028 million (about US$26.35 million). We envisage that the disbursements under the ECF arrangement be channeled to the budget. We also request for modification of the performance criteria to reflect the updated macroeconomic outlook.

We believe the economic and financial policies set forth in this LOI to be adequate to meet the program's objectives.

We will continue to maintain a policy dialogue and consult with the IMF, at our own initiative or whenever the Managing Director of the IMF requests such a consultation, in advance of revisions to the policies contained in our LOI, in accordance with the IMF's policies on such consultations. We will provide IMF staff with data and information necessary for monitoring program implementation in line with the laws of the Kyrgyz Republic.

The program's QPCs, ITs, and SBs are set out in Tables 1 and 2 and described in the attached Technical Memorandum of Understanding (TMU).

As in the past, the authorities of the Kyrgyz Republic agree to the publication of this letter, the TMU, and the Debt Sustainability Analysis.

**Performance in 2016 and 2017H1**

**1. Economic activity has been on the rise since late 2016.** After a slow start, GDP growth accelerated towards the end of 2016 to 3.8 percent (3.7 excluding the Kumtor gold mine) supported by strong performance in trade, industry, agriculture and construction. Growth momentum continues into 2017 and the overall GDP grew by 5 percent in the first nine months. Inflation is also normalizing from a deflation at 0.5 percent at end-2016 to 3.3 percent in September 2017 (y/y), still below our target range of 5–7 percent. Low food and fuel prices due to in part by the lagged effect of currency appreciation were the main factors. Core inflation also declined to around 4 percent.

**2. The current account deficit narrowed in 2016 and is expected to further decline in 2017, reflecting a number of factors.** Exports benefited from the expansion of the Kumtor goldmine, while weak domestic demand and low energy prices continued to contain imports. Moreover, remittances surged by over 30 percent in US Dollar terms in 2017H1, benefiting both from improved access to the Russian labor market and regional economic recovery. The real effective exchange rate appreciated, reflecting nominal appreciation against the main trading partners' currencies.

3. **The overall fiscal deficit for 2016 reached 4.5 percent of GDP, and for 2017H1 1.3 percent of GDP, both in line with the program target.** In 2016, revenues were lower than planned mainly due to shortfall in tax collection. To compensate, we carried out ad-hoc cuts to goods and services expenditures and rephased some foreign-financed investment projects. The latter together with currency appreciation helped bring external public debt down to 56.6 percent of GDP at the end of 2016. The 2017H1 deficit was better than expected mainly due to one-off revenues from higher than expected proceeds from telecom court litigations and an unexpected grant from Russia, while expenditures were broadly in line with expectations.

4. **In absence of inflationary pressure, we relaxed our monetary policy stance to alleviate pressure on the banking sector and spur credit.** We lowered the policy rate from 10 percent at the beginning of 2016 to 5 percent by the end of the year, where it remains. Credit by commercial banks to the private sector started to recover since early 2017, and posted a growth of 15.2 percent (y/y) in September 2017.

5. **Pressures on the banking sector are subsiding, but vulnerabilities remain.** Falling dollarization is reducing pressure on the banking sector. Thanks to our policy measures and the appreciation of the som, loan and deposit dollarization fell significantly. Nonetheless, we continue to monitor the sector for vulnerabilities, particularly NPLs and restructured loans which stood respectively at 8.3 percent and 7.9 percent (of which 4.7 percent are prolonged loans) and are among the lowest in the region.

### Outlook and Risks

6. **Prospects for the near and medium terms are improving as regional pressures subside, but realizing good outcomes requires prudent macro policies and structural reforms.** For 2017, we expect real growth to reach around 3.5 percent, benefiting from recovery in domestic and external demand. Growth is expected to gradually recover over the medium term. Economic recovery will push inflation up to within the NBKR target range (5-7 percent) as food and fuel prices recover. The current account deficit is expected to narrow to about 10 percent in 2017.

7. **The main risks to our economy continue to stem from developments in our key partners Russia, Kazakhstan and China.** A slowdown in oil dependent Russia and Kazakhstan and economic retrenchment in China could dampen external demand, remittances and foreign-financed investment. Recent tightening of border controls by Kazakhstan could negatively affect economic performance in 2017 and further delay the positive effects of EEU accession. The narrowing of correspondent banking channels could weigh on economic activities by isolating the banking sector from the rest of the world and increasing informal economy. Upside risks include higher growth from Russia, stronger economic relationships with Uzbekistan, and the strengthening of economic ties with China.

### The Policies for the Remainder of 2017 and 2018

*To keep the program on track, we will adhere to revenue and expenditure policies consistent with program commitments; exert of our efforts to re-introduce key missing elements of the recently enacted Banking Law; and continue to carry out limited interventions in the foreign exchange market to smooth excessive volatility.*

### Fiscal Policy

8. **We are committed to a 2017 fiscal deficit target of 3.5 percent of GDP, which is relaxed compared to the previous commitment under the program, to accommodate the spending on emergency and rehabilitation work related to the April landslide in the south.** In the first nine months of the year, we undertook one-off expenditures, which represent about 4 percent of GDP. To offset the one-off expenditures, we have identified one-off revenues (unbudgeted dividends and litigation receipts). We will also cut some non-priority expenditures and domestically-financed investments, which will help us achieve a relaxed program target of 3.5 percent of GDP.

9. **Despite recent permanent expansionary policy measures, we remain committed to a fiscal deficit of 2.5 percent of GDP in 2018 to continue our consolidation efforts, rebuild our buffers, and keep our debt level sustainable.** The permanent expansionary measures adopted in 2017 equivalent to 2 percent of GDP include (i) the universal child allowance; (ii) increase in the pensions and wages for certain categories of public sector employees; (iii) continuation of the VAT exemption on wheat and flour; and (iv) new tax exemptions for private schools, initiated by Parliament, and subsidized interest rates for export producers. Other measures are under consideration, which could further worsen the fiscal balance. To mitigate this, we will (i) implement measures included in the appendix, of which the measures on tax and non-tax revenues represent 1.6 percent of GDP; and (ii) reduce current expenditures and domestically financed capital spending by 0.4 percentage points. To meet our deficit target, we will:

a. **Increase budgetary revenues as a matter of priority.** To this end, we will broaden the tax base by streamlining exemptions and capturing the non-observed economy. In particular, we will (i) work to defend in Parliament changes to the Tax Code of the Kyrgyz Republic to restore the VAT on wheat and flour effective January 1, 2018 (prior action); (ii) submit to parliament proposals listed in Table 3 under tax policy, totaling 0.4 percent of GDP, including eliminating tax exemptions on some goods and services, raising excise rates, and expanding the tax base (SB, January 2018); (iii) prepare an analysis of the 20 largest exemptions in terms of revenue impact on the budget, including concrete proposals to streamline them (SB, February 2018); and (iv) refrain from introducing new exemptions or renewing expiring ones (continuous QPC).

b. **Reduce expenditures and improve efficiency is essential to maintain a sustainable fiscal position.**

i. ***On the wage bill:*** We have introduced the register of state and municipal jobs, established requirements for high level civil servants, and reduced the number of political appointees by half. We will continue our reforms with the aim of reaching a wage bill of 9.0 percent of GDP in 2018 by (i) based on a headcount analysis, adopting the relevant government decision or resolution to cut the ceiling for state and local administrative staff and subordinated institutions by 10 percent to be implemented by September 2018 (SB, March 2018); (ii) containing the number of support staff in the public sector, including in the social sector and at other subordinated institutions; (iii) eliminating redundant or ineffective state entities; (iv) returning unused wage allocation to the treasury instead of using them for additional bonuses; (v) limiting the growth of base salaries, allowances and bonuses to inflation and refraining from ad-hoc wage increases; and (vi) gradually consolidating all wage-related expenditures, in the base part of the salary, including bonuses, with the exception of certain additions stipulated by law, in order to enhance budget transparency;

ii. ***On transfers and subsidies*****:** continue reforms aimed at reducing the burden of subsidies and improving targeting by (i) adopting a new medium-term tariff strategy (SB, March 2018) with the intention of restoring the financial sustainability of the energy sector by adjusting energy prices to close the gap between the energy price and the cost recovery level for all energy users starting in 2018; (ii) improving the efficiency of social spending by gradually shifting from categorical to means-tested programs by (a) submitting to Parliament amendments to the recently adopted Law of the Kyrgyz Republic on "State Subsidies of the Kyrgyz Republic" (universal child allowance) to restore targeting of the most vulnerable (SB, May 2018), (b) reducing the leakages of the system and the risk of excluding the most vulnerable households, (c) freezing categorical programs and their monetary compensation instead of privileges, and introducing targeting; (iii) working with Parliament to reject the draft Law of the Kyrgyz Republic "On Amending the Law of the Kyrgyz Republic "On State Pension Social Insurance" (on increasing teachers' pensions);

iii. ***On goods and services*****:** (i) contain non-priority goods and services below the 2015 level by implementing e-procurement and improving control of ministries' and agencies' own resources (including special means); and (ii) continue to refrain from non-budget spending and any quasi-fiscal measures, which could undermine our targets; and

iv. ***On capital investment*****:** adhere to the action plan on public investment management, especially on rationalizing domestically financed capital expenditures, keeping them under 3 percent of GDP.

**c. In the event of shortfall in any of the above measures,** we will identify alternative measures, including reversing existing tax exemptions on the basis of the aforementioned analysis of 20 largest exemptions, further streamlining non-priority goods and services, and domestically financed capital expenditure.

**10. We will continue with our efforts to strengthen tax administration.** In this respect, we will (i) introduce an electronic system for tracking trade transactions (e-invoicing, labeling, e-patents, online cash registers); (ii) introduce "safe city" project to use connected cameras to collect traffic fines; (iii) continue efforts to simplify tax payment and electronic reporting; and (iv) install service centers to track movement of goods imported from EEU countries to improve indirect tax administration.

**11. Despite recent setbacks, we remain committed to pursue financial management information system (FMIS) reforms.** We are working toward reaching an agreement to set up a new Multi Donor Trust Fund arrangement to support PFM reforms. In this respect:

a. We are committed to complete the FMIS project with our own resources, including through organic growth and integration of systems developed in-house. To this effect, we remain committed to completing the preparation of the terms of reference for FMIS including the human resources module to serve as a roadmap for the project implementation. We remain committed to extend treasury coverage to the Social Fund.

b. With IMF technical assistance, we are developing a credible, transparent and enforceable fiscal rule, which will provide an anchor to our fiscal policy. The new rule includes remedial actions to ensure compliance. We will submit to Parliament amendments to the Budget Code of the Kyrgyz Republic (Budget Code) to include the new rule and to specify more clearly the conditions for emergency appropriations and reallocation of resources within the budget envelope (SB, March 2018). We will introduce changes to the draft 2018 Budget Law to replace articles 7.1, allowing reallocation of budgetary resources within the envelope, and 7.3, allowing additional expenditures for urgent measures, with a direct reference to the relevant articles in the Budget Code (prior action).

c. The current framework, under which individual elements of fiscal policy, particularly on the revenue side, are divided among five different agencies with separate reporting lines and operational goals, has proven inefficient in addressing revenue shortfall. We will conduct an analysis of institutional responsibilities for tax policy design and implementation towards increasing coherence and accountability. Based on the outcome, we could decide on the optimal location of the tax policy function.

   The Procurement Law of the Kyrgyz Republic, which was adopted in 2015, represents a step forward compared to the previous one. We intend to safeguard the benefits of the new law, by introducing changes to the draft amendments, currently under consideration in Parliament (prior action), to (i) limit the special procedures for joint stock companies with state majority to shortening procurement period requirement; (ii) remove proposals that broaden the scope for the Government of the Kyrgyz Republic and the authorized government agency for state material reserves to engage in direct contracting beyond the conditions set out in the existing Procurement Law of the Kyrgyz Republic; and (iii) maintain mandatory publication of the contract awards in all cases except those related to national security and defense.

d. In compliance with the Budget Code of the Kyrgyz Republic, we included information on fiscal risks and information on transfers, on-lending and loan restructuring for SOEs into the explanatory note to the republican budget for 2018.

**12. To ensure that debt remains sustainable and that the public debt ratio starts to decline, we will aim to further reduce the deficit over the medium term.** To this end, we will (i) continue consolidation efforts over the medium term; (ii) refrain from non-concessional borrowing; (iii) improve debt monitoring; (iv) minimize fiscal risks stemming from SOEs by enhancing coordination between the Ministry of Finance of the Kyrgyz Republic and the State Property Fund of the Government of the Kyrgyz Republic; and (iv) improve the efficiency of public investment by strengthening selection and appraisal in line with Fund's Public Investment Management Assessment (PIMA) recommendations. To this end, we will develop a framework for the formal appraisal for all major externally and domestically financed projects (exceeding 50 million soms) prior to selection, with the nature of the appraisal tailored to the size of the project and sector (SB, December 2017).

### Monetary and Exchange Rate Policies

**13. Our monetary policy objective remains focused on ensuring price stability.** Our monetary policy stance continues to reflect the need for relaxation to support growth as inflation remains subdued. On the other hand, we closely monitor credit growth and inflation dynamics, and stand ready to finetune our policy stance in case overheating pressures emerge.

**14. We are committed to enhancing the monetary transmission mechanism, with a goal of gradually moving toward inflation targeting.** Our efforts continue to focus on improving the traction of the policy rate, to achieve which goal the timely withdrawal of excess liquidity to encourage interbank trading remains a priority. In addition, we will: (i) continue to improve our monetary policy forecasting framework; (ii) continue the Ministry of Finance of the Kyrgyz Republic and the NBKR coordination on fiscal and monetary policy; (iii) consider developing the domestic securities market jointly by the NBKR and the Ministry of Finance of the Kyrgyz Republic in order to establish a benchmark yield curve; (iv) improve coordination between the NBKR and the RKDF to facilitate liquidity forecasting and improve coverage of monetary statistics; and (v) enhance the forward-looking component of our communication policy. We will also consider developing monetary instruments to balance the effect of our FX interventions and gold-related transactions on money supply.

**15. We remain committed to a two-way exchange rate flexibility as the key to reducing external imbalances, enhancing competitiveness and safeguarding reserves.** To ensure two-way flexibility, we will: (i) continue to intervene in the foreign exchange market only to smooth excessive fluctuations; and (ii) consider introducing new monetary instruments and developing hedging instruments.

### Financial Sector

**16. We continue to monitor the financial sector for emerging risks, particularly in the context of accelerating credit growth.** In this context, we are (i) undertaking risk-based supervision (RBS) trainings with the plan of extending RBS to more banks by end-2017; (ii) preparing recommendations to help commercial banks to transition to the new international reporting standard (IFRS9) that will come into force in early 2018; (iii) operationalizing the crisis preparedness framework by approving the list of systemically important banks (SIBs), as well as the recapitalization procedure of these SIBs together with the Government of the Kyrgyz Republic. We will modify the organizational structure to better adapt to the requirement of RBS.

**17. We will continue to maintain a level playing field among market players.** NBKR will closely monitor RKDF activities in line with the Memorandum of Understanding (MOU). We are aware of the emerging cyber security risks, and actively work with the banks to strengthen the IT system, as well as to enhance our supervisory and regulatory framework to properly account for the cyber risks. We will also ensure equal application of capital requirements and other prudential regulations to all supervised entities. In line with international best practice, the NBKR will not assume an equity position in a commercial bank or any other entity involved in lending or investment activities.

**18. We continue our reform efforts aimed at safeguarding the stability of the financial sector.** We prepared amendments to the Banking Law, which were, however, rejected by the Ministry of Justice of the Kyrgyz Republic on constitutionality grounds with respect to the limitation of judicial review. Taking into accounts these developments, we will submit to Parliament in early December amendments to the Banking Law (prior action) to reintroduce key provisions on (i) governance and oversight, particularly to introduce majority of non-executive membership in the board of the NBKR; and (ii) lending to non-supervised institutions; and exert our best effort to enact them by March 2018 (SB). Due to protracted litigation and ongoing asset freezes, we were unable to liquidate the three remaining banks under DEBRA's management. Nevertheless, we remain committed to make every effort to ensure that DEBRA submits the remaining three banks, namely "AUB" (SB, February 2018), "Manas" and "Issyk-Kul" banks to court for liquidation by May 2018 (SB).

**19. Despite the recent withdrawal of the draft Law of the Kyrgyz Republic on AML/CFT from Parliament, we remain committed to further improving the national AML/CFT framework.** To this end, we will, as a first step, introduce key provisions through Kyrgyz Republic government regulations by end-February 2018, in order to meet FATF requirements. As a next step, we will submit to Parliament a revised AML/CFT Law in line with international standards and Fund advice (SB, March 2018). In this respect, we will seek additional technical assistance from the Fund.

**20. The narrowing of the correspondent banking channels is becoming a significant risk to our banking sector.** We continue to assist banks to enhance their compliance capacity, and reach out to foreign correspondent banks to clarify the situation and establish mutual understanding. In this regard, we would like to request the Fund to step up its support to raise awareness and foster coordinated actions at multinational level.

### Institutional and Structural Reforms to Ensure Broad Based Growth

**21. As we start preparations for our next national strategy for sustainable development, the key challenge remains to raise growth and make it more inclusive.** The new Long Term National Strategy 2040 highlights the importance of sustainable and equitable growth. The strategy is aimed at building a "Smart Nation/Taza-Koom" with emphasis on human development through knowledge, education, health and the harnessing of new information and management technologies. Policies aimed at diversifying the sources of growth; rebuilding fiscal buffers to withstand future shocks; and transitioning to inflation targeting are key stations on the way to realizing the long-term vision.

22. **To achieve high and inclusive growth, we need to tackle structural impediments and encourage the traded goods sectors.** In this context, we will work to eliminate the main obstacles to growth, namely: (i) enhancing labor force participation, including female labor force participation; (ii) addressing skills mismatches and improving education outcomes; (iii) removing market distortion to encourage private investment needed to close infrastructure gaps; (iv) developing a new medium term tariff strategy to ensure energy sector sustainability; (v) developing the financial market; (vi) improving trade and competitiveness policies with the objective of maximizing the benefits from EEU membership and GSP+ (Generalized Scheme of Preferences Plus) status with the EU; and (vii) enhancing governance and tackling corruption.

23. **We are undertaking a largescale review of state owned enterprises (SOEs) and joint stock companies aimed at enhancing transparency and efficiency of state property.** In this context, we evaluated assets, liabilities, stock of debt, and share of state ownership. As a result, we were able to reduce the number of SOEs by half. We will draw a roadmap to improve management of the remaining SOEs and joint stock companies. To that effect, we will seek donor technical assistance.

24. **We remain committed to carry out reforms aimed at improving the business climate by, among others, improving governance and continuing to combat corruption.** The Government of the Kyrgyz Republic is embarking on a program of reforms specifically aimed at addressing areas of concern under the World Bank doing business framework including: access to the power grid, enforcement of contract, protection of property rights, ease of paying taxes, business insolvency and trade across borders. In this context, we are working to address regulatory shortcomings and weaknesses in the judicial system and law enforcement by enhancing predictability and transparency; and reduce the regulatory burden by streamlining the number of regulations and enforcement processes, and bolstering protections for businesses against potential abuse.

25. **We remain committed to implementing the outstanding recommendation of the 2015 IMF safeguards assessment of the NBKR, by exerting best effort to ensure a timely passage of the necessary amendments to the Banking Law.**

Sincerely yours,

/s/
D. Kenekeev
Acting Prime Minister of the Kyrgyz Republic

/s/
A. Kasymaliev
Minister of Finance
of the Kyrgyz Republic

/s/
N. Jenish
Acting Chairman of the National Bank
of the Kyrgyz Republic

## Table 1. Kyrgyz Republic: Quantitative Performance Criteria and Indicative Targets Under the Extended Credit Facility, December 2016–March 2018

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

| | 2016 | | | | 2017 | | | | | | | | | | | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | December | | | | March | | | | June | | | | September | December | | March |
| | QPC | | | | IT | | | | QPC | | | | IT | QPC | | IT |
| | Target | Adj. | Actual | Status | Target | Adj. | Actual | Status | Target | Adj. | Actual | Status | Target | Current | Proposed | Proposed |
| *Quantitative performance criteria 1/* | | | | | | | | | | | | | | | | |
| 1. Floor on net international reserves of the NBKR (eop stock, in millions of U.S. dollars) | 1,418 | 1,419 | 1,521 | Met | 1,346 | 1,346 | 1,512 | Met | 1,347 | 1,359 | 1,575 | Met | 1,329 | 1,347 | 1,593 | 1,500 |
| 2. Ceiling on net domestic assets of the NBKR (eop stock) | -9,587 | -12,588 | -18,896 | Met | -7,546 | -6,288 | -20,720 | Met | -5,388 | -2,522 | -13,712 | Met | -5,746 | -5,199 | -3,977 | -102 |
| 3. Ceiling on cumulative overall deficit of the general government 2/ | 20,156 | 21,499 | 20,897 | Met | 9,691 | 9,165 | 1,246 | Met | 17,549 | 14,128 | 4,361 | Met | 17,032 | 14,480 | 17,318 | 6,577 |
| 4. Present value of new external debt contracted or guaranteed (continuous, in millions of U.S. dollars) | 287 | | 141 | Met | 311 | | 88 | Met | 311 | | 130 | Met | 311 | 311 | 392 | 326 |
| 5. Ceiling on accumulation of new external payment arrears (continuous, in millions of U.S. dollars) | 0 | | 0 | Met | 0 | | 0 | Met | 0 | | 0 | Met | 0 | 0 | 0 | 0 |
| 6. Ceiling on newly introduced or renewed tax exemptions 3/ (continuous, in number of occurrence) | n.a. | | n.a. | n.a. | n.a. | | n.a. | n.a. | n.a. | | n.a. | n.a. | n.a. | n.a. | 0 | 0 |
| *Indicative Targets 1/* | | | | | | | | | | | | | | | | |
| 1. Ceiling on reserve money | 85,656 | | 85,584 | Met | 86,376 | | 81,586 | Met | 91,329 | | 92,432 | Not met | 92,312 | 93,968 | 102,155 | 100,314 |
| 2. Cumulative floor on state government tax collections 2/ | 97,783 | | 92,929 | Not met | 20,031 | | 21,968 | Met | 43,051 | | 46,499 | Met | 71,142 | 106,653 | 106,102 | 21,496 |
| 3. Floor on cumulative state government spending on social assistance, Unified Monthly Benefit and Monthly Social Benefit programs 2/ | 5,322 | | 5,424 | Met | 1,339 | | 1,390 | Met | 2,678 | | 2,813 | Met | 4,017 | 5,557 | 5,557 | 1,339 |
| 4. Ceiling on new nonconcessional external debt contracted or guaranteed by public sector (continuous, in millions of U.S. dollars) 4/ | 0 | | 0 | Met | 0 | | 0 | Met | 0 | | 0 | Met | 0 | 0 | 0 | 0 |
| 5. Ceiling on introducing new and renewal of existing tax exemptions (continuous, in number of occurrence) 5/ 6/ | 0 | | 0 | Met | 0 | | 0 | Met | 0 | | 1 | Not met | 0 | 0 | 2 | n.a. |

Sources: Kyrgyz authorities and IMF staff estimates and projections.
1/ As defined in the TMU.
2/ Cumulative from beginning of the year.
3/ Agreed during the April negotiations to switch the IT to a QPC.
4/ External debt contracted or guaranteed with a grant element of less than 35 percent.
5/ A VAT exemption on private schools and personal income tax exemption for the financial police were granted, respectively, in Q2 and Q4.
6/ IT until becoming a QPC by the Executive Board during the fourth and fifth reviews board meeting.

## Table 2. Kyrgyz Republic: Prior Actions and Structural Benchmarks under the Extended Credit Facility

| Measures | Timing | Status |
|---|---|---|
| ***Prior Actions*** | ***5 business days prior to the board meeting*** | |
| Amend the Tax Code to restore VAT on wheat and flour effective January 1, 2018. | | |
| Submit to Parliament amendments to the Banking Law to reintroduce key provisions on (i) governance and oversight, particularly to introduce majority of non-executive membership in the board of the NBKR; and (ii) lending to non-supervised institutions. | | |
| Submit changes to the draft 2018 Budget Law to replace articles 7.1 and 7.3 with a direct reference to the relevant articles in the Budget Code. | | |
| Submit changes to the draft amendments to the Procurement Law currently under consideration in Parliament to (i) limit the special procedures for joint stock companies with state majority to shortening procurement period requirements; (ii) remove proposals that broaden the scope for the Government of the Kyrgyz Republic and the authorized government agency for state material reserves to engage in direct contracting beyond the conditions set out in the existing Procurement Law of the Kyrgyz Republic; and (iii) maintain mandatory publication of the contract awards in all cases except those related to national security and defense. | | |
| ***Structural Benchmarks*** | | |
| **I. FISCAL POLICY** | | |
| Set up a comprehensive register of all employees of the general government. | End-March, 2017 | **Not met** |
| Relying on the action plan to reform personnel and remuneration policy, identify quantitative measures to reduce the wages bill to 8.8 percent of GDP in 2018. | End-May, 2017 | **Not met 1/** |
| Sign the FMIS terms of reference. | End-May, 2017 | **Not met** |
| Introduce a standardized framework for project monitoring of physical and financial performance for all externally and domestically financed projects exceeding 50 million soms. | End-June, 2017 | **Not met** |
| Finalize the review and the action plan to reduce subsidies. | End-July, 2017 | **Met** |
| Sign the contract with the IT provider for the FMIS project. | End-September, 2017 | **Not met** |
| Introduce a standardized framework for project monitoring of physical and financial performance for all externally and domestically financed projects exceeding 50 million soms. | End-December, 2017 | **Revised deadline** |
| Develop a framework for the formal appraisal for all externally and domestically financed projects (exceeding 50 million soms) prior to selection, with the nature of the appraisal tailored to the size of the project and sector. | End-December, 2017 | **New** |
| Submit to Parliament proposals listed in table 3 of this LOI under tax policy, totaling 0.4 percent of GDP, including eliminating tax exemptions on some goods and services, raising excise rates, and expanding the tax base. | End-January, 2018 | **New** |
| Prepare an analysis of the 20 largest tax exemptions in terms of revenue impact on the budget, including concrete proposals to streamline them. | End-February, 2018 | **New** |
| Based on a headcount analysis, adopt the relevant government decision or resolution to cut the ceiling for state and local administrative staff and subordinated institutions by 10 percent to be implemented by September 2018. | End-March, 2018 | **New** |
| Adopt a new medium-term tariff strategy with the intention of restoring the financial sustainability of the energy sector by adjusting energy prices to close the gap between the energy price and the cost recovery level for all energy users starting in 2018. | End-March, 2018 | **New** |
| Submit to Parliament amendments to the Budget Code to include the fiscal rule, and to more clearly specify the conditions for emergency appropriations and reallocation of resources within the budget envelope. | End-March, 2018 | **New** |
| Submit to Parliament amendments to the recently adopted law on "State Subsidies of the Kyrgyz Republic" (universal child allowance) to restore targeting of the most vulnerable. | End-May, 2018 | **New** |
| **II. FINANCIAL SECTOR** | | |
| Develop a strategic plan for supervision with the following components: (i) personnel policy to attract and retain qualified personnel, and decrease personnel turnover rate; (ii) training of supervisors to ensure that staff is familiar with the NBKR's supervisory approach and to improve their technical ability; (iii) enhancing the supervisory approach, including implementation of the risk-based supervision; and (iv) strengthening the current regulatory framework and bringing it line with international standards. | End-December, 2016 | **Met** |
| Approve by the NBKR Board regulations for: (i) classifying restructured loans, which will result in abolishing the prolonged loans category; and (ii) refinancing of classified loans. | End-March, 2017 | **Met** |
| DEBRA to submit to the courts requests for liquidating the following banks: "Kyrgyzagroprombank" banks, "Manas", "Issyk-Kul", and "AUB" banks. | End-March, 2017 | **Not met** |
| Circulate to ministries for review amendments to the Banking Law to reintroduce the missing provisions regarding: (i) governance and oversight, including the NBKR's Board composition; (ii) judicial review and nonsuspension of the NBKR's decisions; (iii) powers of the NBKR in the resolution process and liquidation process; and (iv) lending to non-supervised institutions. | End-April, 2017 | **Met** |
| Revise and enact regulations to preserve the main requirement for lending to related parties. | End-May, 2017 | **Met** |
| Submit to Parliament amendments to the Banking Law to reintroduce the missing provisions regarding: (i) governance and oversight, including the NBKR's Board composition; (ii) judicial review and nonsuspension of the NBKR's decisions; (iii) powers of the NBKR in the resolution process and liquidation process; and (iv) lending to non-supervised institutions. | End-July, 2017 | **2/** |
| DEBRA to submit to court a request for liquidating "AUB" bank. | End-February, 2018 | **New** |
| Resubmit to Parliament the draft AML/CFT law in line with international standards. | End-March, 2018 | **New** |
| Enact amendments to the Banking Law to reintroduce the missing provisions regarding: (i) governance and oversight, particularly to introduce majority of non-executive membership in the board of the NBKR; and (ii) lending to non-supervised institutions. | End-March, 2018 | **Revised 3/** |
| DEBRA to submit to court requests for liquidating "Manas" and "Issyk-Kul" banks. | End-May, 2018 | **New** |

Source: IMF staff.

1/ The action plan was completed with one-month delay as agreed during the April mission.

2/ Given that the measure is unconstitutional due to the unconstitutionality of a provision requiring judicial review and nonsuspension of the NBKR's decisions, this end-July 2017 structural benchmark is not being assessed for program purposes.

3/ Proposed to remove from this benchmark, established previously as a December SB under the third review, two provisions regarding (a) judicial review and nonsuspension of the NBKR's decisions which is unconstitutional, and (b) powers of the NBKR in the resolution process and liquidation process which is no longer necessary given provisions under the current Banking Law.

## Table 3. Kyrgyz Republic: Fiscal Measures to Close the Gap

| Type of Measure | Details | In percent of GDP 2017 | 2018 |
|---|---|---|---|
| **Tax policy** | | **0.3** | **0.4** |
| | Revise VAT applicable to certain types of exports. | | |
| | Establishment of rates for export customs duties for shell limestones and harmonize of FEZ with EEU. | | |
| | Raise excise rates on alcohol. | | |
| | Introduce labels for some Kyrgyz clothing items to reduce the informal economy. | | |
| | Introduce a minimum level of target prices for imports from EEU. | | |
| | Cancel tax exemptions in the context of the harmonization with the EEU. | | |
| | Introduce a deposit payment for import of alcohol from EEU countries | | |
| | Increase revenues by reforming special means | | |
| | Increase functional coefficient for property tax | | |
| | Cancel sales tax exemption for kindergarten and medical institution | | |
| | Prevent from extending profit tax and VAT exemption of processed agricultural products | | |
| | Reverse VAT for non residents for services | | |
| | Cancel inefficient income tax exemption for individual working for religious organizations | | |
| | Eliminate voluntary patent regime for importer to move to regular regime | | |
| | Cancel exemption on sales tax for agriculture producers and cooperatives | | |
| | Limit the deductions from cash expenditure from the sales tax | | |
| | Introduce excise on natural gas (liquefied fuel compressed hydrocarbon) used as automotive fuel. | | |
| | Tax JSC profits, which have been undistributed for more than 3 years | | |
| | Revise the method of determining gold concentrate to assess the tax base | | |
| **Tax administration** | | **0.7** | **0.5** |
| | Strengthen VAT administration for entrepreneurs by introducing electronic invoices and simplifying procedures | | |
| | Strengthen administration of tax collection on a patent basis from cargo and passenger carriers by carrying joint inspection of the road patrol and STS. | | |
| | Improve customs payments through harmonization procedure, closer relationships with third countries and better information system. | | |
| | Fight against violation of customs duties and illegal imports of goods and vehicles, and collection of arrears by improving the monitoring of operations and procedures and pursuing unscheduled inspections. | | |
| | Improve administration of tax and non tax payments by increasing the number of scheduled and non scheduled audits. | | |
| | Speed up litigation cases. | | |
| | Speed up the collection of tax arrears. | | |
| | Remove prohibition of tires imports from third countries | | |
| | Improve tax collection from the tourism sector | | |
| | Improve tax administration from the service sector and special tax regimes, and construction sector | | |
| | Increase collection of trash removal fees | | |
| | Put new factory into operation (Textile Trans LLC) | | |
| | Mobilize additional insurance contributions from legal entities, individual entrepreneurs and farmers households | | |
| | Introduce voluntary patents for services provided during the elections campaign | | |
| | Improve regulation of the alcohol sector by increasing supervision on production | | |
| | Improve local tax administration collection by transferring the collection to local administration | | |
| | Improve collection of insurance contributions from legal entities, individual entrepreneurs, and farmers | | |
| | Carry out investigations to identify violations and crime related to tax evasion | | |
| | Setting up service centers at the border | | |
| | Record income tax at the source based on minimum income | | |
| | Increase electronic fiscalization by setting up e-invoice, online cash registries, and e-filing | | |
| **PFM** | | **0.3** | **0.3** |
| | Improve efficiency of the payment system through savings in procurement operations. | | |
| | Introduce an e-trade website | | |
| **Expenditure** | | **0.7** | **0.4** |
| | Streamline of non priority goods and services. | | |
| | Reduce domestically financed capital expenditure. | | |
| | Reduce contribution to state budgetary reserve | | |
| | Reallocation of extra funding on wages and salaries | | |
| | Refunding of unused funds from local budgets (stimulating grant) | | |
| **Nontax revenues** | | **0.2** | **0.3** |
| | Higher dividend from SOEs and government shares in different companies. | | |
| | Implement an electronic trading platform | | |
| | Proceeds from privatization. | | |
| | Introduce an annual fee for numbers allocated by state communication agency | | |
| | Reimbursement of taxes from criminal procedures and fraud. | | |
| | Develop legislation on sales and lease of municipal property | | |
| | Increase the share of NBKR profit to the government | | |
| | Increase non tax revenue from adopting the non tax revenue Code | | |
| | Increase the rate of non tax payment for work permit for foreign citizens | | |
| | Increase fines from traffic rule violation due to installation of camera in the context of the safe city initiative | | |
| | **Total** | **2.2** | **2.0** |
| | **of which permanent** | 1.0 | 1.8 |
| ***Memo item:*** | | | |
| 2017 Nominal GDP | 488.7 | | |
| 2018 Nominal GDP | 523.6 | | |

Sources: Authorities data and IMF staff calculations.

# Attachment I. Technical Memorandum of Understanding (TMU)

December 1, 2017

## Introduction

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 December 1, 2017 reflect the understandings on quantitative performance criteria reached between the authorities of the Kyrgyz Republic and staff of the IMF.

## Performance Criteria and Indicative Targets

### Definitions and Concepts

**1. Test dates.** Quantitative performance criteria are set semi-annually starting June 30, 2015 through December 31, 2017, and are to be met at the end of each period.[1]

**2. 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.

**3. Public sector.** For the purpose of the program, the public sector comprises the general government, the NBKR, the 10 largest nonfinancial public enterprises (enterprises and agencies in which the government owns more than 50 percent of the shares, but which are not consolidated in the budget, as listed in Table 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.

**4. 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.

**5. 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.

[1] The TMU paragraphs are numerated as of December 1, 2017.

6. **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 have not been paid.

7. **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 rate used for this purpose is 5 percent. The debt refers also to commitments contracted or guaranteed and for which value has not been received. The calculation of 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.

8. **Variable interest rate.** For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD LIBOR is 3.34 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -250 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -300 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -100 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six-month USD LIBOR is -200 basis points.[2] Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added.

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 as of February 17 of 2015 exchange rate of KGS 60.7523 = US$1. The corresponding cross exchange rates and program gold price for the duration of the program are provided in Table 2.

## Quantitative Performance Criteria

### Floor on Net International Reserves of the NBKR in Convertible Currencies

[2] The program reference rate and spreads are based on the "average projected rate" for the six-month USD LIBOR over the following 10 years from the Fall 2014 World Economic Outlook (WEO).

***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. For program purposes, convertible foreign currencies refer only to U.S. dollar, Euro, British Pound, Japanese Yen, Swiss Franc, Australian Dollar, and Canadian Dollar. Accrued interest on deposits, loans, and debt securities are included in reserve assets and liabilities, correspondingly. Reserve assets pledged as collateral or otherwise encumbered, capital subscriptions in foreign financial institutions, deposits of resident financial institutions (commercial banks and the Russia-Kyrgyz Development Fund) in foreign currency and illiquid assets of the NBKR are excluded from NIR. 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 and non-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 and non-resident institutions.[3] 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$ 1,643 million on September 30, 2017.

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

***Adjustors***

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

[3] In case of a currency swap providing for receipt of foreign exchange by the NBKR and transfer of domestic currency to a resident financial institution, total international reserves increase, NIR remain unchanged, and net claims on domestic banks in soms increase. In case of a currency swap providing for transfer of foreign exchange by the NBKR and receipt of domestic currency from a resident financial institution, total international reserves and NIR decrease, and net claims by NBKR on domestic banks remain unchanged.

## 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 11,563 million on September 30, 2017.

### *Adjustors*

**15.** The ceiling on NDA will be adjusted downward/upward to the full extent of any excess/shortfall in program and other 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. The ceiling on NDA will be adjusted downward/upward to the full extent of any excess/shortfall of the Russia-Kyrgyz Development Fund net flows given in Table 3a.

## Ceiling on the Cumulative Overall Cash Deficit of the General Government Budget

### *Definitions*

**16.** The overall cash deficit of the general government budget will be measured from the financing side (below the line) as the net cash inflow from financing activities, defined as the net incurrence of liabilities minus the net acquisition of financial assets other than cash. These will be measured at current exchange rates and will be defined as the sum of:

- 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 and overdrafts on the current accounts of the general government with banks;
- The change in the stock of net claims of foreign governments, banking systems, and nonfinancial institutions and households on the general government;
- Net transactions in equity, i.e., any new sales net of purchases of shares;
- Net foreign loans disbursed to the general government for budgetary support; and

- 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 budget 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 budget 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 the present value of new external debt contracted or guaranteed, 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), as amended by Decision No. 15688–(14/107), point 8, adopted December 5, 2014, and reads as follows:

- 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:

- 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);

- Suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
- 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 definition of debt set out in point 8 (a) in the above mentioned Executive Board Decision, 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, and the RKDF is not considered as an external creditor.

**21. External debt ceilings.** A performance criterion (ceiling) applies to the present value (PV) of new external debt, contracted or guaranteed by the public sector with original maturities of one year or more. The ceiling applies to debt contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended. The ceiling is subject to an adjustor defined below.

**22.** An adjustor of up to 5 percent of the external debt ceiling set in PV terms applies to this ceiling, in case deviations are prompted by a change in the financing terms (interest, maturity, grace period, payment schedule, upfront commissions, management fees) of a debt or debts. The adjustor cannot be applied when deviations are prompted by an increase in the nominal amount of total debt contracted or guaranteed.

**23. 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.

**24. 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.

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

### Ceiling on newly introduced or renewed tax exemptions

**26.** A performance criterion applies to any change in law, or regulation, that expands the eligibility for, or value of, existing tax deductions, exemptions, or credits, or introduces new tax deductions, exemptions, or credits, or reduces tax rates, or reduces the number of taxpayers subject to tax.

## Indicative Targets

### Ceiling on reserve money

**27.** **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**

**28.** 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 social assistance**

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

**Ceiling on the new Non-Concessional External Debt Contracted or Guaranteed**

**30.** An indicative target applies to the contracting or guaranteeing by the public sector of non-concessional external debt, i.e. external debt with grant element of less than 35 percent, except normal short-term import-related credits and the NBKR international reserve liabilities.

**Reporting Requirements Under the Arrangement**

**31.** 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.

## Analytical Balance Sheet of the NBKR

**32.** 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 net foreign assets of the NBKR; the net international reserves of the NBKR; total reserve assets and total reserve liabilities of the NBKR ; the net domestic assets of the NBKR; net credit from the NBKR to the general government, disaggregated by state government and special funds of the KR; net credit from the NBKR to other deposit corporations and other financial corporations (including Russia-Kyrgyz Development Fund); 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.

## Monetary Survey

**33.** 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, net credit from the banking system to the general government disaggregated by the state government, and the social fund, 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. In light of the limited coverage of the RKDF activities in the monetary survey, the NBKR in accordance with the MOU will exert the best efforts to ensure that the IMF has access to the macro-critical information.

**34.** 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 protection agency); 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

**35.** The NBKR will provide monthly data within 20 days from the end of the month on its gross and net international reserves within the framework of reporting "International Reserves and Foreign Currency Liquidity" (IMF's SDDS). The report on foreign assets and liabilities by currency will be provided 20 days after the end of each quarter. 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, reports should be sent to the IMF on 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. Reports on 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, nonperforming loans by sector and by currency, restructured and prolonged loans by sector and by currency, return on equity, liquidity, earning and profitability, loans and deposits ratios in domestic and foreign currency, foreign currency exposure and dollarization as well as data on bank deposits and loans by maturity and sector, and bank deposit and lending rates by maturity. On the twentieth day of the month following the reference quarter the NBKR will provide data on nonperforming loans for micro-finance organizations and credit unions.

## External Debt

**36.** 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.

## Budgetary and Extra Budgetary Data

**37.** 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, as well as any new or renewed tax exemption, including its quantification.

## Balance of Payments Data

**38.** 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.

## Other General Economic Information

**39.** 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 State Owned Enterprises (SOEs)**
(Included in the public sector)

| | 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 "OshElectro" |
| 10 | JSC "BishkekTeploset" |

Sources: Authorities data and IMF staff calculations.

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

| Abbreviation | Currency Name | Currency/US$ | US$/Currency |
|---|---|---|---|
| AUD | Australian Dollar | 1.2926 | 0.7736 |
| AMD | Armenian Dram | 479.6865 | 0.0021 |
| CAD | Canadian Dollar | 1.2525 | 0.7984 |
| CNY | Chinese Yuan | 6.2477 | 0.1601 |
| CNH | Chinese Yuan | 6.2517 | 0.1600 |
| JPY | Japanese Yen | 119.0568 | 0.0084 |
| KZT | Kazakh Tenge | 185.0512 | 0.0054 |
| KWT | Korean won | 1,100.5851 | 0.0009 |
| KWD | Kuwati dinar | 3.3824 | 0.2956 |
| KGS | Kyrgyz Som | 60.7523 | ... |
| NOK | Norweigan Crown | 7.6020 | 0.1315 |
| RUB | Russian Ruble | 62.6635 | 0.0160 |
| SAR | Saudi Rial | 4.6076 | 0.2170 |
| SGD | Singapore Dollar | 1.3585 | 0.7361 |
| SEK | Swedish Crown | 8.4426 | 0.1184 |
| CHF | Swiss Franc | 0.9293 | 1.0760 |
| AED | UAE Dirham | 3.6779 | 0.2719 |
| GBP | UK Pound Sterling | 0.6508 | 1.5366 |
| SDR | SDR | 0.7096 | 1.4092 |
| XAG | Silver | 0.0579 | 17.2700 |
| BYN | Belarusian Ruble | 1.5318 | 0.6528 |
| EUR | Euro | 0.8757 | 1.1420 |
| XAU | Gold (US$/troy ounce) | 1,229.2500 | ... |

Sources: Authorities data and IMF staff calculations.

## Table 3a. Kyrgyz Republic: Projected Budget Support, PIP and Amortization 1/

(In millions of U.S. dollars)

| | 2017 | | | 2018 |
|---|---|---|---|---|
| | June | September | December | March |
| | Act. | Proj. | Proj. | Proj. |
| Program grants | 37.0 | 63.0 | 114.4 | 12.8 |
| Program loans | 0.0 | 0.0 | 0.0 | 12.0 |
| Grants in-kind | 30.6 | 61.3 | 91.9 | 0.0 |
| PIP grants excl. grants in-kind | 22.8 | 43.8 | 87.8 | 36.0 |
| PIP grants incl. grants in-kind | 53.5 | 105.1 | 179.6 | 36.0 |
| Other grants | 0.0 | 0.0 | 0.0 | 0.0 |
| PIP loans | 48.7 | 138.1 | 282.2 | 85.3 |
| PIP loans, excl. onlending | 40.8 | 81.0 | 185.4 | 59.2 |
| Amortization of public external debt | 19.9 | 39.5 | 61.0 | 20.6 |
| Interest payments | 12.2 | 29.0 | 40.9 | 16.7 |

Sources: Kyrgyz authorities and IMF staff estimate.

1/ Data for 2017 are cumulative since the latest available actual data (June, 2017). Data for 2018 are cumulative starting March.

**Table 3b. Kyrgyz Republic: Projected Flows of the Russia-Kyrgyz Development Fund**

(In millions of U.S. dollars)

| | 2017 | 2018 |
|---|---|---|
| | December | March |
| Inflows | -1.0 | -0.5 |
| Lending | 0.0 | 0.0 |
| Net | -1.0 | -0.5 |

Sources: Kyrgyz authorities and IMF staff estimate.

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

| Reporting Agency | Data | Frequency | Timing |
|---|---|---|---|
| NBKR | Analytical balance sheet of NBKR at actual and program exchange rates | Daily | The following working day |
| NBKR | Monetary surveys of the banking sector and other depository corporations at actual and program exchange rates | 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 gross and net international reserves<br>Net foreign financing flows | Monthly | Within 20 days of the end of each month |
| NBKR | Reserve composition by currency and instrument | Quarterly | Within 10 days of the end of each quarter |
| NBKR | Nominal exchange rates<br>Foreign exchange interbank market turnover<br>Volume of NBKR foreign exchange sales and purchases in the domestic interbank market on a daily basis | Daily | The following working day |
| NBKR | Treasury bill yields and the amount of treasury bill sales and redemptions, and operations with other parties | Weekly | Every Monday |
| NBKR | Balance sheet and income statement of banks (aggregated); data on capital assessment of the commercial banks and the data on the main factors of the loan portfolio's growth of the banking system and separately of the group of banks with a significant share of the Kazakh capital | Monthly | Within 25 days of the end of each month |
| NBKR | Balance sheet and income statement by individual bank and banking groups; sectoral distribution of loans and NPLs by currency and by bank; restructured and renewed loans; largest exposures by bank; loan classification by banks and by groups; | Monthly | Within 25 days of the end of each month |
| NBKR | Nonperforming loans for microfinancing organization and credit unions | Quarterly | Within 20 days of the end of each quarter |
| NBKR | Indicators of financial soundness of the banking system (capital adequacy, liquidity, asset quality, earning and profitability, loans and deposits ratios, foreign currency exposure and dollarization) | Monthly | Within 25 days of the end of each month |
| State Property Fund | Balance sheets of the 10 largest SOEs | Annually | Within 135 days after the end of the year |
| MOF | Revenues, expenses , net lending and on-lending of financial assets and liabilities of the central government | Monthly | Within 26 days of the end of each month |
| MOF<br>NBKR | Disbursements, principal and interest payment (external debt)<br>Contracting and guaranteeing of medium- and long-term external loans<br>Any stock of outstanding arrears on external debt service payments<br>Total amount of outstanding government guarantees and external arrears | Monthly | Within 21 days of the end of each month |
| MOF | Details (amount, currency, and financing terms) on new loans contracted on public external debt, including SOEs. | Quarterly | Within 25 days of the end of each quarter |
| Social Fund | Social Fund budget execution report | Monthly | Within 30 days of the end of each month |
| MOF | Disbursements and use under the public investment program, budgetary grants, and grants in kind. | 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 60 days of the end of each month |
| NBKR | Remittances by country of origin and currency. | Monthly | Within 45 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 |

Source: IMF staff.