

EBS/01/187
Supplement 2

CONFIDENTIAL

December 6, 2001

To: Members of the Executive Board

From: The Secretary

Subject: **Kyrgyz Republic—Poverty Reduction and Growth Facility—Three-Year Arrangement**

Attached for the records of Executive Directors is the text of the three-year arrangement for Kyrgyz Republic under the Poverty Reduction and Growth Facility, as agreed at Executive Board Meeting 01/122 (11/30/01).

Att: (1)

Other Distribution:
Department Heads

Kyrgyz Republic: Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Attached hereto * is a letter (the "Letter") dated November 16, 2000, with an annexed Memorandum of Economic Policies for the Period October 1, 2001–September 30, 2004 (the "Memorandum"), from the Prime Minister of the Kyrgyz Republic and the Chairman of the National Bank of the Kyrgyz Republic requesting from the International Monetary Fund as Trustee of the Poverty Reduction and Growth Facility Trust ("the Trustee") a three-year arrangement under the Poverty Reduction and Growth Facility, and setting forth:

(a) the objectives and policies of the program that the authorities of the Kyrgyz Republic intend to pursue during the three-year period of the arrangement;

(b) the objectives, policies and measures that the authorities of the Kyrgyz Republic intend to pursue during the first year of the arrangement; and

(c) understandings of the Kyrgyz Republic with the Trustee regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of the Kyrgyz Republic will pursue for the second and third years of the arrangement.

To support these objectives and policies, the Trustee grants the requested three-year arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the Poverty Reduction and Growth Facility Trust.

1. (a) For a period of three years from November 30, 2001, the Kyrgyz Republic will have the right to obtain loan disbursements from the Trustee in a total amount equivalent to SDR 73.4 million, subject to the availability of resources in the Poverty Reduction and Growth Facility Trust.

(b) Disbursements under this arrangement shall not exceed the equivalent of SDR 11.72 million until May 15, 2002.

(c) During the first year of the arrangement:

(i) the first disbursement, in an amount equivalent to SDR 11.72 million, will be available on November 30, 2001, at the request of the Kyrgyz Republic; and

* See EBS/01/187 (11/16/01).

- (ii) the second disbursement, in an amount equivalent to SDR 11.72 million, will be available on or after May 15, 2002, at the request of the Kyrgyz Republic and subject to paragraph 2 below.

(d) The right of the Kyrgyz Republic to request disbursements during the second and third years of this arrangement shall be subject to such phasing and conditions as shall be determined. The phasing of, and conditions for, disbursements during the second year of this arrangement shall be determined in the context of the first review of the Kyrgyz Republic's program contemplated in paragraph 2(e) of this arrangement.

2. The Kyrgyz Republic will not request the second disbursement specified in paragraph 1(c)(ii) above:

(a) if the Managing Director of the Trustee finds that the data as of March 31, 2002 indicate that:

- (i) the floor on net international reserves of the NBKR in convertible currencies, or
- (ii) the ceiling on net domestic asset of the NBKR, or
- (iii) the ceiling on cumulative fiscal deficit of the state government, or
- (iv) the cumulative floor on state government tax collections in cash, or
- (v) the ceiling on the stock of central government budget arrears, or
- (vi) the ceiling on the stock of Social Fund pension arrears, or
- (vii) the ceiling on contracting or guaranteeing by the state government or NBKR of new non-concessional external debt with a maturity of one year or more, or
- (viii) the ceiling on contracting or guaranteeing by the state government or NBKR of new debt with a maturity of less than one year

referred to in paragraph 49 of the Memorandum and specified in Table 1 of the Memorandum, was not observed; or

(b) if the Managing Director of the Trustee finds that, as of December 31, 2001, the Kyrgyz Republic has not carried out its intentions with respect to issuing a government resolution specifying an action plan and time schedule for the privatization of KyrgyzAirlines, KyrgyzTelecom, four power distribution companies of KyrgyzEnergo, and KyrgyzGaz referred to in paragraph 35 and Box 1 of the Memorandum; or

(c) if, at any time during this arrangement, the State Government of the Kyrgyz Republic or NBKR accumulates any new external payment arrears; or

(d) if the Kyrgyz Republic has

(i) imposed or intensified restrictions on payments and transfers for current international transactions, or

(ii) introduced or modified multiple currency practices, or

(iii) concluded bilateral payments agreements that are inconsistent with Article VIII, or

(iv) imposed or intensified import restrictions for balance of payments reasons, or

(e) until the Trustee has determined, with regard to the second disbursement, that the first review of the Kyrgyz Republic's program scheduled for completion on or after May 15, 2002 and referred to in paragraph 49 of the Memorandum has been completed.

When the Kyrgyz Republic is prevented from requesting disbursements under this arrangement because of this paragraph 2, such disbursements may be made available only after consultation has taken place between the Trustee and the Kyrgyz Republic and understandings have been reached regarding the circumstances in which the Kyrgyz Republic may request the disbursements.

3. In accordance with paragraph 3 of the Letter, the Kyrgyz Republic will provide the Trustee with such information as the Trustee requests in connection with the progress of the Kyrgyz Republic in implementing the policies and reaching the objectives of the program supported by this arrangement.

4. In accordance with paragraph 3 of the Letter, during the period of this arrangement the Kyrgyz Republic shall consult with the Trustee on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director of the Trustee requests such a consultation. Moreover, after the period of this arrangement and while the Kyrgyz Republic has outstanding financial obligations to the Trustee arising from loan disbursements under this arrangement, the Kyrgyz Republic will consult with the Trustee from time to time, at the initiative of the Government or whenever the Managing Director of the Trustee requests consultation on the Kyrgyz Republic's economic and financial policies. These consultations may include correspondence and visits of officials of the Trustee to the Kyrgyz Republic or of representatives of the Kyrgyz Republic to the Trustee.