



BANKING & FINANCE

INDUSTRY AND LEGAL UPDATE

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Industry Update

Since the beginning of the year, the net inflow of money transfers to Kyrgyzstan increased by 10% totaling to \$ 825 million

In January-June 2013, the amount of cash inflow of individuals in money transfers system increased by 14.3 percent as compared to the last year, as reported by the National Bank of Kyrgyzstan.

However, they say that the growth rates continue to decline. "The slowdown of the world economy which puts pressure on the growth of the Russian economy, causes reduction in the rate of growth of money transfers to Kyrgyzstan. In January-June 2013 the net inflow of money transfers increased by 10% totaling to \$ 825 million, while in the first half of 2012, it increased by 15.3%. The major share (99%) of money transfers accounts for the CIS countries, including Russia (97.8%), Kazakhstan (1.2%) and far abroad (1%), reported the agency.

In January-June 2013 the amount of excessive liquidity in the banking system of the Kyrgyz Republic amounted to 1.4 billion soms

In January-June 2013 the volume of excessive liquidity in the banking system, being one of the factors influencing the process of formation of main trends in financial market development at the end of the period concerned amounted to 1.4 billion soms, having decreased over the year by 21.8%, reported the National Bank of Kyrgyzstan.

Thus, in the second quarter of 2013, the lowest

Legal Update

Law "On Restriction of Usurious Activities in the Kyrgyz Republic" dated 24 July 2013 (hereinafter - the Law)

This Law defines the basic principles of the state policy in the field of restricting usurious activities in the Kyrgyz Republic and the legal basis for establishing such restriction. The Law shall apply to creditors, i.e. individuals or legal entities (irrespective of a type of ownership) providing interest-bearing loans and credits falling within the definition of usurious activity.

In the Law, the term 'usurious activity' refers to the practice of lending by individuals or legal entities of financial and/or material resources on a contractual basis under specified terms and conditions as to time, recovery and payment at high interest rates for use of such financial and/or material resources.

The purpose of this Law is to protect the rights of consumers, i.e. borrowers, by securing fair determination of interest rates for loans and credits. Thus, the law defines the term 'usurious interest rates' as the interest rates set forth in a credit or loan agreement in excess of the maximum allowable interest rate. The maximum allowable interest rate refers to the procedure set forth in the said law for determining the interest rate which must not exceed the limit recognized by the government. The maximum allowable interest rate is calculated based on the average weighted nominal interest rate determined by the National Bank of the Kyrgyz Republic plus 15%.

In case of engaging in usurious activities, foreclosure on collateral when borrowers default on their obligations to creditors must be carried out through the judicial process. When determining the financial and/or material

level of this index was registered in mid-June (306.6 million soms) and the highest level was registered at the beginning of the quarter (4.1 billion soms).

The aggregate size of the KGS loans increased by 72.3 % totaling to 8.1 billion soms, due to increasing the total amount of ordinary credit transactions in the national currency on the domestic interbank credit market (+36.1%), which amounted to 853.6 million soms with an average interest rate being 7.8 % per year (+0.2 percentage points).

Foreign currency transactions were not conducted during the reporting period.

At the end of June 2013 the discount rate was 3.20 %, which is 0.22 percentage points more than in the beginning of the year. As a result, the rate for "overnight" loans has decreased by 8.3 percentage points per annum with an average rate being 3.5 %t, while the volume of such loans over the year has increased 5.4 times, totaling to 4.8 billion soms. Average weighted interest rate for repo transactions decreased by 5.6 percentage points totaling to 3.4 %. The volume of repo transactions amounted to 2.4 billion soms.

In January-June 2013, monetary base increased by 3.8% totaling to \$ 66.9 billion soms, reported the National Bank

In January-June 2013, the monetary base increased by 3.8 percent or 2.4 billion soms and as of July 1, 2013 amounted to 66.9 billion soms (compared to 3.5% in the comparable period of 2012), reported the National Bank of Kyrgyzstan.

According to the agency, for the reviewed period, the Government operations account for a 1.4 billion soms increase in the monetary base, while the National Bank operations account for a 1 billion soms increase.

In January-June 2012, the monetary base increased by 1.9 billion soms. The Government operations account for a 5.2 billion soms increase in the monetary base while the National Bank operations account for a 3.3 billion soms decrease in the monetary base.

obligations of the borrower to the lender, a penalty (fine, default interest) for the entire loan or credit period must not exceed 20 percent of the principal amount.

The Regulations on minimum requirements for pricing policy of banks and microfinance institutions of June 14, 2013 (hereinafter – the Regulations)

The purpose of the Regulations is to provide a systematic approach to setting prices for banking services by commercial banks and financial/lending institutions licensed and regulated by the National Bank of the Kyrgyz Republic, including those operating in accordance with the Islamic principles of banking and finance subject to special terminology used by them when performing banking operations (hereinafter – the FLIs), to comply with antitrust laws of the Kyrgyz Republic.

The Regulations set basic requirements for the FLIs pricing policies. The FLIs pricing policy refers to the FLIs practices of defining the pricing strategy to be set forth in their internal regulations setting the prices for various services (products) provided by banks and microfinance institutions and their modification according to changes in market conditions.

According to the Regulations, the pricing policy must indicate at least the following:

- 1) The aims and objectives of the FLIs pricing policy in case of performing active and passive operations, taking into account risk and reward;
- 2) the requirement to conduct a market analysis of demand and prices for services of banks and microfinance institutions;
- 3) the requirement to analyze the formation of the structure of interest rates, including interest and non-interest expenses to achieve the level of profitability set by the FLIs;
- 4) The requirement to disclose components of the interest rates for all types of credits (including the cost of borrowed funds, the loan servicing costs, operating expenses, debt provisioning costs, taxes, planned profitability rate (margin) and other costs caused by objective factors, regional and other peculiarities of the FLIs operation) and lowest and highest interest rates acceptable for FLIs, as well as requirements for the procedure for their application and periodic revision;
- 5) as well as other requirements specified in the

Regulations.

The Law of the Kyrgyz Republic "On Guarantee Funds in the Kyrgyz Republic" dated 30 July 2013 (hereinafter - the Law)

The Law defines the legal and economic framework for the establishment and operation of guarantee funds in the Kyrgyz Republic. The Law defines guarantee fund as a legal entity created to improve access of small and medium enterprise to bank loans to be used for business development, production expansion, acquisition and modernization of plant and equipment, introduction of new technologies, innovation and discovery of new enterprises by providing guarantees (sureties).

Under the Law, guarantee funds may be set up by individuals and legal entities in the form of joint-stock companies, limited liability companies, cooperatives and funds.

Guarantees (sureties) are provided by the guarantee fund by executing the guarantee (surety) agreement among the guarantee fund, financial/lending institution and small or medium business entity under the terms and conditions specified by law. Guarantees (sureties) of the guarantee fund are provided for the unsecured part of the obligation of the business entity under the credit agreement. Any liability of the guarantee fund under the executed guarantee (surety) agreements must not exceed 30 per cent of the principal obligation (principal amount) of the client to the financial/lending institution.

The liability of the guarantee fund for non-performance or improper performance by the client of the obligation secured by the guarantee (surety) shall be joint and several liability to the extent specified in the guarantee (surety) agreement. The guarantee fund does not secure the performance of the client's obligations to pay interest on the loan, penalties, fines, default interests and bank fees.

The Law of the Kyrgyz Republic "On introduction of changes and additions to some legislative acts of the Kyrgyz Republic" dated July 24, 2013

This law introduces amendments to Part II of the Civil Code of the Kyrgyz Republic. Under this law, the amendments to the loan agreement must be made in writing and

certified by the notary, if its amount is five times higher than the index rate. Failure to comply with this requirement shall render it invalid. The lender may not claim interest under the loan agreement which is not notarized. Also, the new rules require that if the loan agreement sets usurious interest rates, the court shall consider them as the maximum allowable interest rate determined in accordance with law.



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www.akipress.kg, www.24.kg, www.parus.kg, www.kyrgyz-el.kg

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