

**Republic of Tajikistan: Third Review Under the Three-Year Arrangement Under the Extended Credit Facility, Request for Waiver of Nonobservance of a Performance Criterion and Request for Modification of a Performance Criterion—Staff Report; Staff Supplements; Press Release on the Executive Board Discussion.**

In the context of the third review under the three-year arrangement under the extended credit facility, request for waiver of nonobservance of a performance criterion and request for modification of a performance criterion, the following documents have been released and are included in this package:

- The staff report for the Third Review Under the Three-Year Arrangement Under the Extended Credit Facility, Request for Waiver of Nonobservance of a Performance Criterion and Request for Modification of a Performance Criterion, prepared by a staff team of the IMF, following discussions that ended on September 24, 2010, with the officials of the Republic of Tajikistan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 9, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- Staff supplements of November 9, 2010 updating information on recent developments.
- A Press Release summarizing the views of the Executive Board as expressed during its November 24, 2010 discussion of the staff report that completed the request and/or review.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of the Republic of Tajikistan\*  
Memorandum of Economic and Financial Policies by the authorities of the Republic of Tajikistan\*  
Technical Memorandum of Understanding\*

\*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF TAJIKISTAN

**Third Review Under the Three-Year Arrangement Under  
the Extended Credit Facility, Request for Waiver of Nonobservance of a Performance  
Criterion and Request for Modification of a Performance Criterion**

Prepared by the Middle East and Central Asia Department  
in Consultation with Other Departments

Approved by David Owen and Dhaneshwar Ghura

November 9, 2010

**Mission:** Discussions were held in Dushanbe during September 13–24 for the third review under the three-year arrangement under the Extended Credit Facility (ECF).

**Team:** Messrs. Schneider (head), Abdychev, and Ms. Unigovskaya (all MCD), and Ms. Bal Gunduz (SPR). Mr. Aisen, the resident representative, assisted the mission, and Mr. Owen (Deputy Director, MCD) participated in the policy discussions.

**Key Tajik officials:** President Rahmon, Head of President’s Office Davlatov, Minister of Finance Nadjmuddinov, National Bank of Tajikistan (NBT) Chairman Rahimzoda, and Minister of Economic Development and Trade Hamraliev.

**Fund relations:** A three-year, US\$116 million (90 percent of quota) arrangement under the ECF was approved by the IMF’s Executive Board on April 21, 2009, and augmented to US\$152 million (120 percent of quota) on June 7, 2010. See Country Report No. 10/203.

**Exchange system:** Tajikistan has accepted the obligations under Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on payments and transfers for current international transactions. The exchange rate regime has been classified as stabilized since June 2009.

**ECF:** All quantitative performance criteria through end-June 2010 were met, with one exception. In the updated Memorandum of Economic and Financial Policies (MEFP) attached to President Rahmon’s Letter of Intent (LOI), the authorities outline their economic program through December 31, 2011, for which they seek support under the ECF arrangement. Two end-June structural benchmarks that remain incomplete have been set as prior actions for completion of the third review.

**Data:** Despite some weaknesses, data provision is broadly adequate for surveillance. Tajikistan participates in the GDDS.

**Outreach:** The mission met with local representatives of the donor community, including the Asian Development Bank (ADB), the World Bank, the European Union, and briefed members of the diplomatic community. The mission also gave a press briefing.

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## EXECUTIVE SUMMARY

**Tajikistan is emerging from the global crisis.** Economic activity is on the upswing, bolstered by higher hydroelectric power production, and a rebound in inward remittances. The outlook for the remainder of 2010 and 2011 is relatively positive, but risks remain, including regional transport disputes, uncertainty regarding the regional recovery, higher food and fuel prices, and continued weakness in the state enterprise and financial sectors.

### **The authorities plan to:**

- Address the structural energy deficit and achieve energy independence—largely through construction of the Roghun hydropower project (HPP).
- Raise social expenditures while maintaining a modest fiscal deficit in 2011 (excluding externally financed investment). Importantly, the draft budget also includes the costs of the first round of government recapitalization of the NBT.
- Maintain a flexible exchange rate regime—seen as key to safeguarding external stability—while seeking donor support to bolster fiscal revenues and the BOP.
- Continue structural reforms—in particular strengthening governance at the NBT and in key state-owned enterprises (SOEs).

### **Staff agrees with the authorities' policy strategy and notes:**

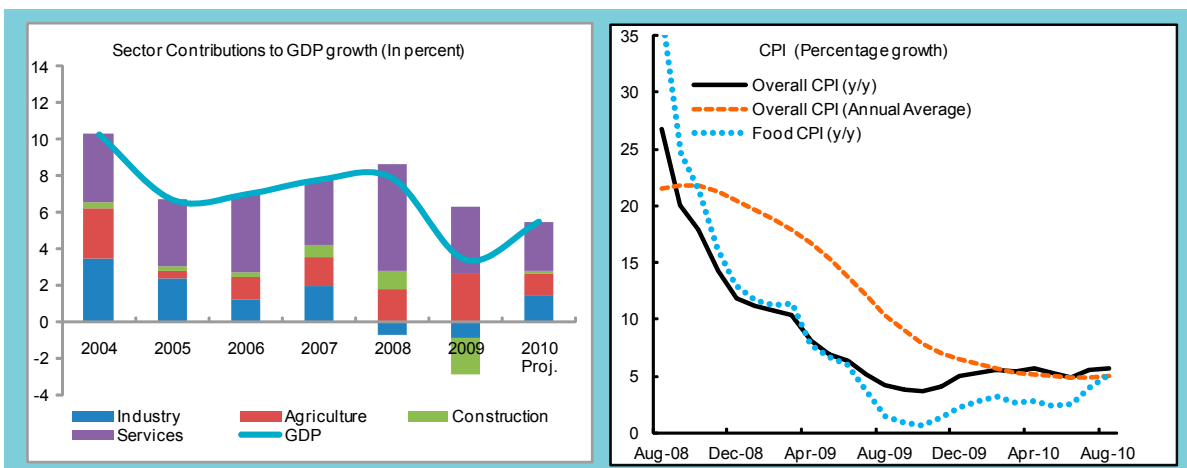
- The authorities need to begin shifting policy from an anti-crisis to a post-crisis footing. Medium-term fiscal consolidation will be essential, while striking a careful balance between social and capital spending.
- Weaknesses in the SOE and financial sectors are potential fiscal liabilities and need to be addressed. A long-term solution lies in exposing these sectors to greater financial discipline.
- Completion of two prior actions (linked to state enterprises) is essential to demonstrate continued commitment to transparency and good governance.

## I. INTRODUCTION AND BACKGROUND

1. **The effects of the global crisis on Tajikistan's economy are fading.** In 2009, a 30-percent decline in inward remittances, coupled with a substantial decline in exports and FDI resulted in a sharp slowdown in economic activity and a marked decline in disposable income. With assistance from the donor community (including budget support), the authorities embarked on a program of anti-crisis measures to support the economy and increase social spending. An incipient recovery now appears underway.
2. **The ECF-supported program—approved by the Executive Board in March 2009—has been implemented satisfactorily.** In June 2010, the combined first and second review was completed. The authorities also requested and obtained augmentation of access to 120 percent of quota (SDR 104.4 million) to bolster Tajikistan's relatively small cushion of foreign exchange reserves. Performance under the ECF during 2010 has been satisfactory. The authorities request a waiver for the nonobservance of one performance criterion.
3. **The political situation remains stable, but the security situation is under some strain.** A late-August escape of militants from a prison facility near Dushanbe was followed by a September suicide-bomb attack on a police station in the northern city of Khujand, and an explosion at a nightclub in Dushanbe. While the mission was in the field, an attack on a military convoy in the east of the country killed some 25 soldiers—the first such incident since the end of the civil war.

## II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE ECF

4. **Tajikistan is emerging from the 2009 crisis and a recovery is underway.** Despite the intermittent blockade of rail shipments via Uzbekistan<sup>1</sup>, real GDP growth reached 7

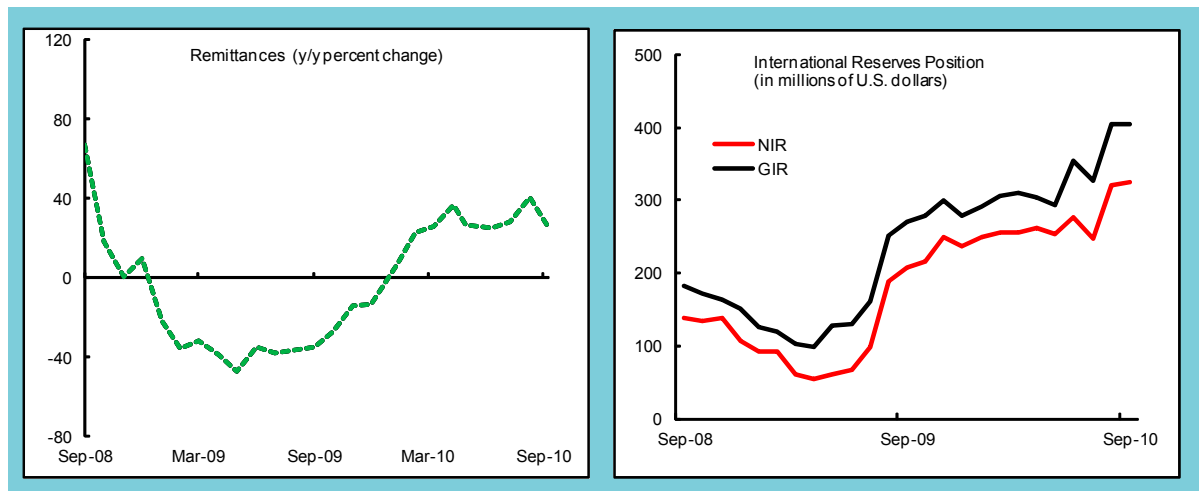


<sup>1</sup> Rail traffic through Uzbekistan is a key route for Tajikistan's imports—accounting for the bulk of total shipments in 2009. Uzbekistan opposes construction of Roghun.

percent in the first half of 2010, reflecting stronger power production, construction, and manufacturing. Backed by a 25 percent year-on-year increase in inward remittances through August, trade and services activity is also on the rise. Inflation fell to 5 percent through June, but has since accelerated on the back of rising wheat and fuel prices, and is expected to reach 9 percent by end-year. Reserve accumulation in the first half of 2010 was somewhat stronger than expected, reflecting subdued imports as a result of the blockade.

5. **Financial sector indicators weakened in the first part of 2010.** The overhang of cotton debt and weakness in state enterprises (partly linked to the rail blockade) continue to weigh on banks' balance sheets (Box 1). Private sector credit growth has also yet to recover. While the dip into negative private sector credit growth is partly explained by the write-off of nonperforming cotton loans held by Kredit Invest (KI), even excluding these loans, private sector credit remains subdued. Implementation of the cotton debt resolution has yet to result in a meaningful improvement in banks' balance sheets. T-bills issued to compensate banks for cotton loans carried a nonmarket interest rate (2 percent), and a rollover provision—rendering them relatively illiquid and usable as collateral only with a substantial discount.

6. **Performance on quantitative targets through end-June was broadly satisfactory (LOI, Table 1).** All quantitative performance criteria were met, with the exception of the ceiling on the contracting of nonconcessional external debt.<sup>2</sup> Two out of four indicative targets—the fiscal deficit (ceiling), and gross equity sales and contributions for the Roghun project (ceiling)—were met with wide margins. Two other indicative targets (the floor on tax collection and the floor on social spending) were missed. Low imports related to the rail blockade led to underperformance on the VAT on imports. On social expenditures, current spending (wages, salaries, pensions, and transfers) was broadly on target, but the authorities



<sup>2</sup> Three loans contracted were below the minimum grant element of 35 percent, although not significantly (the loans had a grant element of 31.72, 33.76, and 34.98 percent, respectively). The authorities have indicated that this was an oversight, and that the loans contribute to growth prospects. Staff's assessment is that the deviation relative to the required level of concessionality is minor.

### Box 1. Recent Financial Sector Developments

**Notwithstanding the broader economic recovery, the Tajik financial sector shows continued weakness.**

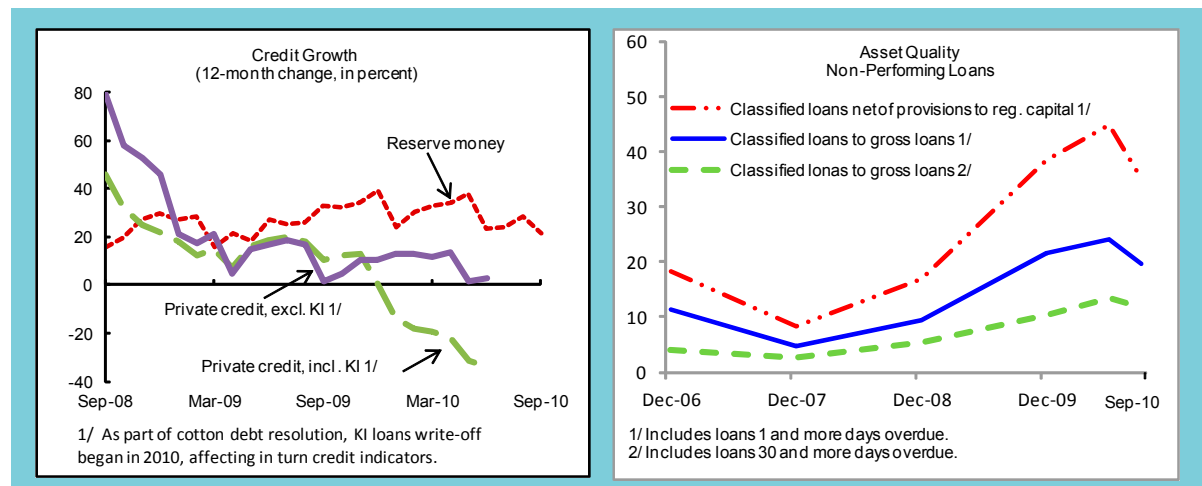
Classified loans have risen notably since the beginning of 2008, peaking at 28 percent of gross loans in March 2010 before declining to about 19 percent by September. Taken as a group, commercial banks' return on equity and assets (ROE and ROA) also turned negative in June 2010. Private sector credit has also yet to recover from a sharp decline during the global crisis. Excluding the write-off of loans by Kredit Invest (as part of the cotton debt resolution) private sector credit growth fell to an annualized 6 percent as of July 2010.

**The deterioration in financial sector indicators mostly reflects problems in the two largest banks.** These banks are closely tied to financing for such state supported activities as cotton and aluminum, and together comprise more than half of banking system assets, and account for more than 70 percent of all classified loans. They also appear to be under-provisioned and have the highest loan concentration ratios. Under some plausible stress tests at least one of these banks would not be able to meet the minimum CAR of 12 percent.

**A confluence of external and internal factors explains part of the deterioration in these banks.** These include the lagged impact of the 2009 global crisis, the negative effect of disruptions to rail traffic on the profitability of key clients (state firms), lax lending standards and regulatory forbearance, and state influence on bank operations. Banks' purchase of shares in the Roghun project in early 2010 added to balance sheet strain, as these shares are not tradable or usable as collateral. Nonmarket-based compensation for cotton sector losses has also led to only a marginal improvement in banks' asset position.

**The deterioration in financial sector indicators is a concern, and must be addressed.** A financial crisis in the traditional sense (via bank runs) appears unlikely given the heavy weight of government entities in the deposit base. Quasi-fiscal risks are clearly present, however. The NBT has already moved to tighten prudential requirements in the past year, and has set a March 2011 deadline for problem banks to submit an action plan to reverse growth in NPLs and return to compliance with prudential standards—possibly involving new capital injections and tightening of lending standards. A longer-term solution lies in a market-based mechanism for agricultural financing, removing state influence and subjecting SOEs to financial discipline.

**The World Bank has led TA on financial sector reform, while the Fund has focused on the NBT.** The Bank's efforts have centered on a revised Law on Banking Activities (enacted) and Deposit Insurance Law (in process), and a bankruptcy law for credit institutions (to be submitted to parliament in December)—all of which should strengthen NBT's ability to intervene in troubled banks. The Bank is also assisting the authorities to prepare a contingency planning framework and a least-cost resolution options matrix. Future TA will likely focus on strengthening NBT regulation and onsite supervision, including preparation of a prompt remedial actions framework. The Bank also fielded a mission in November to conduct a vulnerability assessment of the banking sector. The Fund is also exploring crisis management TA, in coordination with the Bank.



reported that the rail blockade delayed capital-related social expenditures (construction/repair of schools and hospitals); and that a cautious approach to spending was taken given uncertainty on the timing of donor disbursements. The monetary program was also on track. NIR accumulation was slightly higher than targeted. Under the framework of a managed float, the exchange rate remained stable against the U.S. dollar, but appreciated mildly against the Russian Ruble and the euro, which led to a small appreciation in real effective terms.<sup>3</sup>

7. **Progress on structural reforms has been mixed (LOI, Table 2).** On the positive side, audited financial statements for Talco (the state aluminum company) were published on the company's website in August (a pending end-2009 benchmark). A tender for an audit of the 2008–09 financial statements of Roghun OJSC was also issued in line with the end-June benchmark.<sup>4</sup> Regarding other benchmarks:

- A presidential decree requiring cotton investors to repay the NBT was issued in August. Bilateral agreements between most investors and the NBT to implement this decree have been signed. However, payments thus far have been minimal.
- The Roghun OJSC supervisory board did not issue its first quarterly report about the sources and uses of funds at end-June as envisioned. Work has proceeded with the assistance of Fund staff. The authorities agreed that meeting this benchmark would be a prior action for completing the review, given the importance of transparency in the operations of Roghun OJSC.
- A tender for an external audit of Talco Management's 2008–09 financial statements was not issued by end-June.<sup>5</sup> The authorities agreed that implementation of this benchmark would also be a prior action for completing the review.

8. **There has been progress on other measures to which the authorities committed under the MEFP.** The NBT Action Plan incorporating auditors' and safeguard assessment advice is being implemented, albeit with some delays. The NBT's audited financial statement for end-December 2009 was published, and the review of net international reserves for end-June 2010 has also been completed. The 2007 audit report for the state electricity company Barki Tajik was also published on the company's website in June. Implementation of the cotton debt resolution, however, has encountered delays, and staffing of the MOF's SOE

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<sup>3</sup> The REER appreciation is assessed to be consistent with equilibrium adjustment, as it follows a 23 percent drop during 2009.

<sup>4</sup> Only one firm (a reputable international accounting firm, but not one of big four as specified in the tender) applied. The authorities have since contracted with a big four firm, and work on the audit has begun.

<sup>5</sup> Talco management is the tolling partner of the state aluminum company. Delays have been attributed to ongoing litigation between Talco, and Russian Aluminum (Rusal).



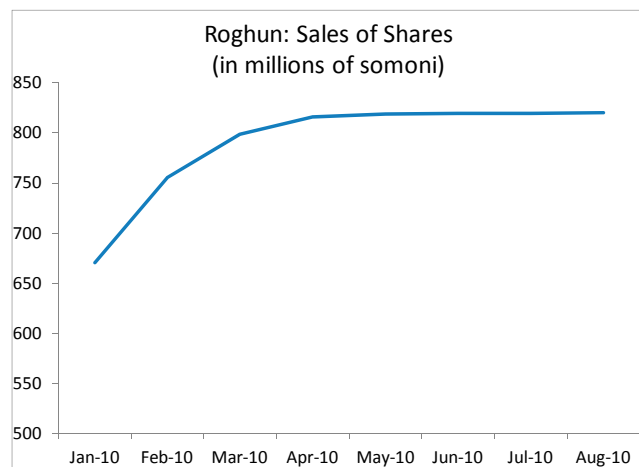
monitoring unit remains incomplete—largely due to problems in attracting and retaining qualified staff.

### Box 2. Roghun: Recent Developments

**The authorities remain committed to building the Roghun HPP as a means of creating the energy independence critical to sustained economic growth.** The project could potentially raise Tajikistan's generating capacity by 13 billion KWh per year. The government is currently working with the World Bank to begin assessment studies of the project, which was originally conceived in the late 1970s. An international joint-venture of consultants is being contracted to undertake a techno-economic assessment of the project. Selection of a consultant to undertake an environmental and social impact assessment is in progress. The World Bank will be playing an expanded role in the studies, to enhance transparency and confidence in the credibility and independence of the assessment; ensure compliance with Bank safeguards policies, and address the concerns of riparian countries.

**The full cost of Roghun is yet to be determined.** The 2010 government budget allocated SM650 million (\$148 million) for Roghun construction—roughly half of domestically-financed capital expenditure. Through end-June, some US\$68 million had been spent.

**With suspension of the advertising campaign in April, 2010, equity sales have diminished** (for additional detail on Roghun and the financing campaign, see Country Report 10/203. Between end-March and end-September, total collections amounted to SM 25 million, bringing total collections to SM820 million. Of this total, some SM200 has reportedly been used to finance operations of Roghun OJSC.



**Measures to improve governance and transparency are lagging.** Roghun OJSC's first quarterly report to the public on sources and uses of funds (set for end-June) was delayed until November. The first shareholder meeting for Roghun OJSC has been delayed to early 2011 given capacity constraints and lack of a unified database of registered shareholders (some 1.7 million unregistered shares were sold during the equity campaign).

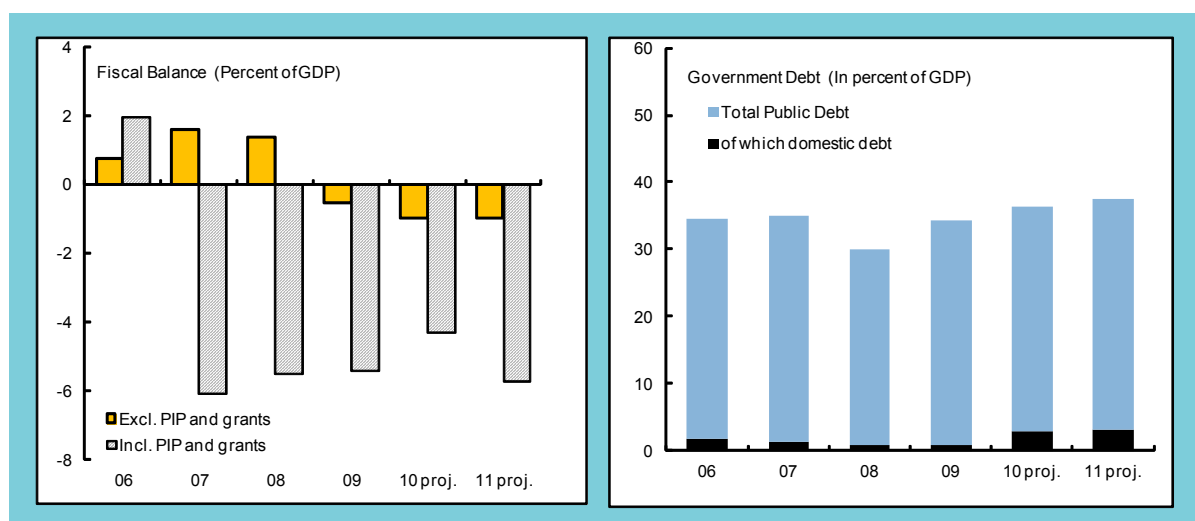
## III. POLICY DISCUSSIONS

9. **Staff and the authorities came to an understanding on a macroeconomic framework, quantitative targets, and structural benchmarks for 2011.** The program will continue to be subject to semi-annual performance criteria and semi-annual reviews (LOI, Tables 1 and 3). Discussions focused largely on the 2011 budget, but also covered tax policy and administration, financial sector reform, and increasing transparency and improving governance in the state enterprise sector.

## A. Policies for 2010

10. **Quantitative performance criteria for end-2010 will remain unchanged, with the exception of NIR accumulation.** Real GDP growth for 2010 is now projected at 5.5 percent, and inflation is expected to reach 9 percent, reflecting higher wheat and fuel prices.<sup>6</sup> On fiscal policy, the challenge will be raising social spending in line with the agreed end-year indicative target, while keeping the deficit (excluding the foreign-financed public investment program--PIP) to 1 percent of GDP. Monetary policy will continue targeting reserve money and the accumulation of foreign exchange reserves, while allowing for exchange rate flexibility. In this context, disbursement of a US\$70 million loan from the EurAsEC Anti-Crisis Fund (ACF) helped raise the level of reserves in 2010, and the majority of this financing will be saved as a buffer for 2011. However, BOP pressures in the second half of 2010 are expected to rise—reflecting higher import prices (wheat and fuel) and pent-up demand following disruption of rail shipments in the first half of the year. Accordingly, staff and authorities agreed on a modest downward revision of the NIR target for end-2010.

11. **Minor modifications are being proposed for the structural reform program.** In light of delays in finding a suitable auditor for Roghun OJSC, the authorities requested to delay publication of the audit results from December 2010 to February 2011. The mission supported the proposal with the understanding that the audit would be published by the fourth review. The authorities also proposed to delay another structural benchmark regarding implementation of a treasury single account due to capacity and technological constraints. The timing of this measure will be revisited during the next review.<sup>7</sup>



<sup>6</sup> The Russian wheat export ban has triggered upward price pressures in many CCA countries. Additionally, Russia imposed duties on petroleum exports to Tajikistan in May-June amounting to US\$209 per ton. Staff estimates that as a result prices of petroleum imports from Russia went up by about 40 percent.

<sup>7</sup> Progress has been made toward completion of a TSA system at the republican level, but budget organizations outside Dushanbe would not be able to comply with a TSA by January 2011. The decision to delay reflects consensus between IMF and World Bank TA missions.

## B. Policies for 2011

### 12. **The fiscal deficit for 2011 (excluding PIP) will be limited to 1 percent of GDP.**

Recent deficits have been financed by external support and a draw-down of government deposits at the NBT. Staff argued that, as the crisis wanes and external support declines, a bolstering of revenues and some expenditure cuts will be necessary—particularly taking into account the future costs of Roghun, and potential quasi-fiscal risks from the SOE and financial sectors. The authorities took the position that cutting the deficit at this stage would be premature. They cited uncertainty about the speed of regional and global growth, difficulties with rail shipments, the slow growth of private sector credit, and pressing social and development needs. Agreement was reached to limit the deficit to about SM300 million (1 percent of GDP). This incorporates an increase in social spending by 0.6 percent of GDP (including expenditures from state budget and extra-budgetary funds), as well as the interest costs of the first round of government recapitalization of the NBT and measures to bolster nontax revenues.<sup>8</sup> This equates to an overall deficit (including the PIP) of 5.7 percent of GDP (higher than the likely 2010 overturn due to phasing of external loan disbursements).<sup>9</sup>

13. **The authorities agreed that medium-term consolidation will be needed to ensure sustainability and to cover the recurrent costs of higher social spending.** In this context, the government committed to measures to bolster tax collection, and to review the tax policy framework (LOI and MEFP). The authorities have requested technical assistance from the Fund in these areas.

14. **Monetary policy will target reserve money, while allowing exchange rate flexibility to facilitate external adjustment.** The mission emphasized that, as the recovery solidifies, the NBT's role as a lender of last resort should diminish, and greater emphasis be placed on price stability.<sup>10</sup> The authorities argued that liquidity needs are still high (as evidenced by an increase in liquidity support from the NBT in September to SM 264 million) and pressed for greater room for NBT liquidity loans (an indicative target). The mission recognized the NBT's concerns, but pointed to the continued risks of such support, and the need to subject banks (and their clients) to financial discipline. In this context, the ceiling on liquidity support will tighten in 2011, but will be reviewed during the next mission in light of macroeconomic and financial conditions.

15. **Structural reforms for 2011 focus on** (i) continued reform of the NBT and implementation of the cotton debt resolution; (ii) supporting financial sector soundness;

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<sup>8</sup> These measures include raising selected penalty charges, and introduction of new tariffs and fees for government services.

<sup>9</sup> Tajikistan is at high risk of debt distress according to the latest DSA (EBS/10/95).

<sup>10</sup> Given uncertainties about the national accounts, staff and the authorities will develop and monitor measures of core inflation and money demand to ensure that reserve money targets are consistent with inflation objectives.

(iii) transparency of state enterprises; and (iv) bolstering domestic revenues. Key measures are shown below. Other measures may be added at the time of the fourth review, depending on progress in the overall structural reform agenda.

- Publication of the NBT's audited 2010 financial statement and a government resolution specifying a multi-year plan for government recapitalization of the NBT (structural benchmarks).
- Requiring commercial banks not in compliance with prudential criteria to submit to the NBT for approval time-bound action plans to resolve these deficiencies (benchmark).
- Quarterly reports on the operation of Roghun OJSC, and preparation of a fiscal risk statement related to state enterprises as part of the 2012 budget (benchmarks).
- A strategy to scale back existing tax and customs exemptions (MEFP). Expanding the coverage of the large taxpayer unit and formulating a strategy (with IMF assistance) to reform the tax policy framework (benchmarks).

### C. Program Risks

16. **Risks to the program remain.** Continued disruptions of rail traffic could weigh on trade, growth, and fiscal revenue. In addition, weaknesses in the banking sector may become more pronounced, requiring government or NBT intervention. In this context, the health of many state enterprises, as well as inter-enterprise and tax arrears, represent a drag on economic growth and the health of the financial system. They also represent contingent liabilities to the government—raising the level of fiscal risk.<sup>11</sup> Institutional capacity remains weak, despite significant improvements in recent years, and could constrain the speed and quality of reforms. Finally, a decrease in donor support—due either to constrained aid budgets, or concern over the pace of progress in such key areas as transparency, governance, and financial sector reform—remains a risk. Continued close coordination with the Fund will be essential, as will the timely provision of technical assistance from the IMF and other IFIs.

## IV. STAFF APPRAISAL

17. **Tajikistan has joined many other Central Asian countries on the recovery path, but risks remain.** A relatively benign external environment, an upswing in inward remittances, and favorable climatic conditions (leading to an increase in hydroelectricity production) helped Tajikistan recover from the slowdown of 2009. Barring new shocks, there are grounds for optimism that the recovery will continue to take root. Serious risks remain, however, tied to regional transport difficulties, uncertainty surrounding the strength of

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<sup>11</sup> An assessment of fiscal risks is planned in the context of ongoing financial sector analysis and in the preparation of a fiscal risk assessment to accompany the 2012 budget.

recovery in key partners (principally Russia), pressure that higher food prices might bring, and lurking hazards posed by weakness in the state enterprise and financial sectors. Finally, recent turbulence in the security situation might give rise to new spending pressures and mitigate the ability of the government to carry through on difficult reforms.

**18. Program performance through June on quantitative indicators has been good.**

The authorities made considerable efforts to meet the quantitative targets under the program, and the staff welcomes this sign of discipline even with fiscal and monetary pressures. Despite a notable shock to VAT on imports, the authorities were able to boost domestic tax revenue and limit the shortfall relative to the indicative target on tax collection. The substantial under-performance on social spending is regrettable, however, and addressing this shortfall should be a priority for the remainder of the year given the high incidence of poverty and pressing social needs. The nonobservance of the performance criterion on contracting of nonconcessional external debt is regrettable. However, given that the deviation relative to the required level of concessionality under the program is minor and that corrective actions are taken (MEFP), staff supports the authorities' request for a waiver. Closer coordination on this issue between staff and the authorities has already begun, and should prevent any future nonobservance of this ceiling.

**19. Looking ahead, macroeconomic policies should shift from an anti-crisis to a post crisis footing.**

Staff supports the overall fiscal deficit target for 2011, but encourages the authorities to undertake measures to build tax revenues and further strengthen social services. The fiscal program seeks to balance social and capital spending, while supporting economic recovery. The authorities should proceed with the envisioned measures to bolster revenue to ensure sufficient resources to pursue their policy objectives in a sustainable manner. Over the medium term, a return to small deficits or fiscal balance (excluding the foreign-financed PIP) will be necessary to preserve fiscal and debt sustainability, as well as ease pressures on the balance of payments. On monetary policy, provision of liquidity support to commercial banks should not endanger reserve money targets, and should be phased out as conditions improve. In this context, staff supports the NBT's intention to step up enforcement of prudential standards and require problem banks to prepare credible strategies to repair their balance sheets. Exchange rate flexibility will also be necessary to ensure orderly adjustment while continuing to build foreign exchange reserves. In this context, intervention will be focused on meeting the program's NIR targets and smoothing short term volatility.

**20. Follow-through on structural reforms is essential both to continued donor support and meeting medium-term macroeconomic objectives.**

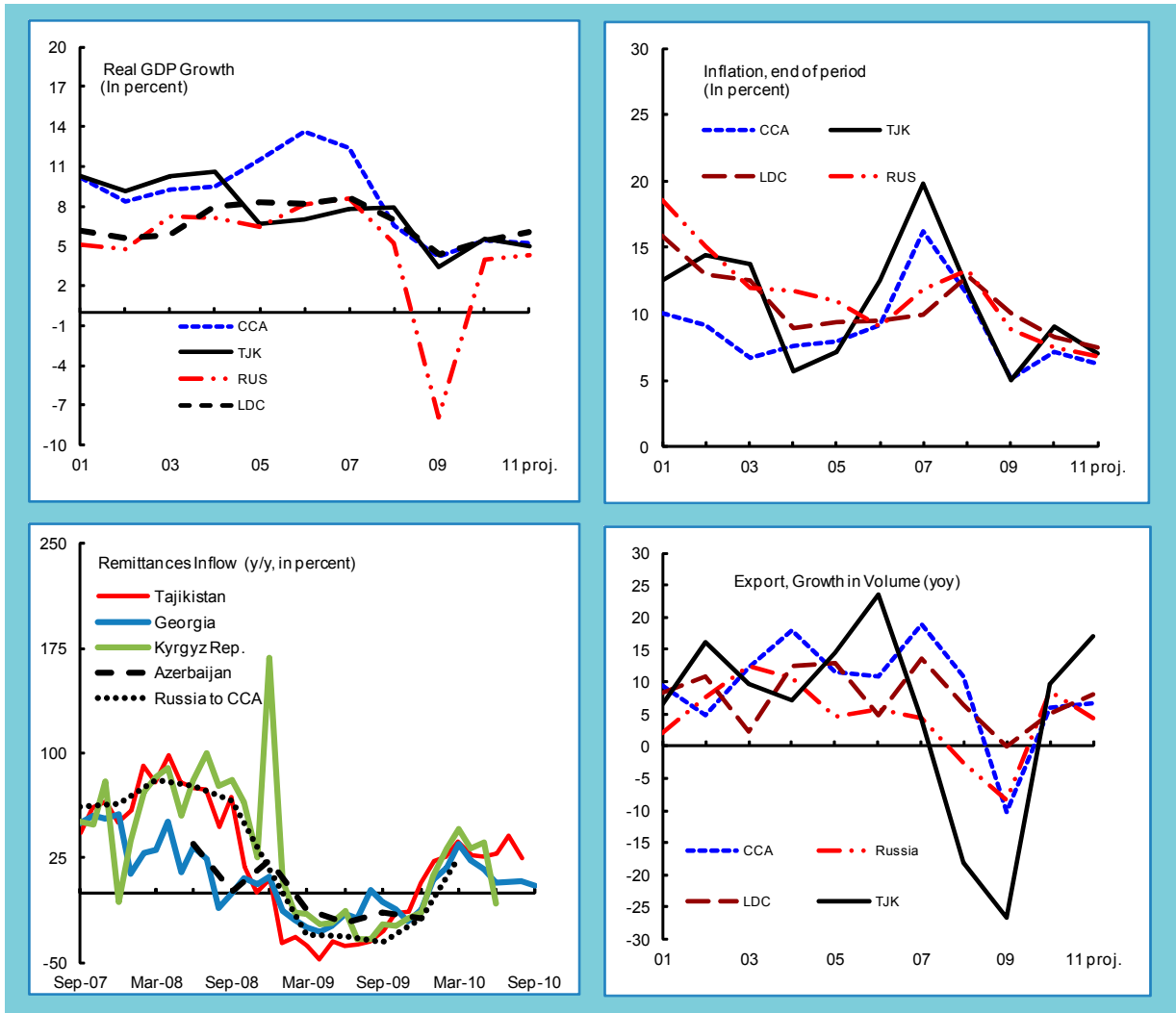
Progress in a number of areas is clearly visible. However, the delays in meeting two structural benchmarks on SOE transparency are regrettable. It is essential to address underlying weaknesses in the state enterprise sector, move expeditiously in implementing the cotton debt resolution, and press ahead with public financial management and revenue reforms.

**21. Staff supports the authorities' request for the completion of the third review, the fourth disbursement, the waiver of nonobservance for the performance criterion on nonconcessional external debt, modification of the end-December 2010 performance**

criterion on net international reserves and the establishment of end-June and end-December 2011 performance criteria. The authorities have successfully implemented the program under ECF arrangement through June 2010, and completion of the third review would provide valuable support to help sustain recovery and further reduce vulnerabilities in 2010. The program's macroeconomic framework continues to serve as an anchor around which donors structure their support.

Figure 1. Tajikistan: Economic Developments in a Cross Country Perspective, 2001–11 1/

Economic developments in Tajikistan follow largely the same pattern as the rest of the Caucasus and Central Asia (CCA) region and Least Developed Countries (LDCs), reflecting the global nature of the 2009 crisis and recovery afterwards



Sources: Tajik authorities; and IMF staff estimates and projections.

Table 1. Tajikistan: Selected Economic Indicators, 2007–15

	2007	2008	2009	2010	2011	2012	2013	2014	2015
	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percent change, unless otherwise indicated)									
<b>National accounts</b>									
Real GDP	7.8	7.9	3.4	5.5	5.0	5.0	5.0	5.0	5.0
GDP deflator (cumulative)	27.9	27.7	13.3	15.0	13.0	12.0	11.0	11.0	11.0
CPI inflation (end-of-period)	19.8	11.9	5.0	9.0	7.0	6.0	5.0	5.0	5.0
CPI inflation (period average)	13.2	20.4	6.5	7.0	8.0	6.5	5.5	5.0	5.0
(In percent of GDP, unless otherwise indicated)									
<b>Investment and saving 1/</b>									
Investment	22.9	21.3	18.7	17.1	20.9	20.8	19.0	18.0	18.5
<i>of which</i> : Fixed capital investment	22.0	20.5	14.2	12.1	15.9	16.3	16.0	17.7	17.2
Government	15.0	14.5	13.2	10.1	12.9	11.8	10.5	10.7	10.2
Private	7.0	6.0	1.0	2.0	3.0	4.5	5.5	7.0	7.0
Gross national savings	14.3	13.6	13.8	13.6	15.5	13.2	13.1	12.1	12.8
Public	8.9	9.0	7.8	5.8	7.2	6.4	6.3	6.0	5.6
Private	5.4	4.7	6.0	7.8	8.3	6.8	6.8	6.1	7.2
<b>General Government</b>									
Revenue and grants	22.5	22.1	23.4	22.3	23.8	23.0	22.9	22.7	22.4
<i>Of which</i> : tax revenue	17.8	18.7	17.6	18.0	18.5	18.7	18.7	18.7	18.7
Expenditure and net lending	28.6	27.6	28.8	26.6	29.6	28.4	27.1	27.4	27.0
<i>Of which</i> : current	13.6	12.6	14.6	15.9	16.7	16.6	16.6	16.7	16.8
capital	15.0	14.5	13.2	10.1	12.9	11.8	10.5	10.7	10.2
Overall balance (excl. PIP and stat. discrepancy) 6/	1.6	1.4	-0.6	-1.0	-1.0	-0.5	-0.5	0.0	0.0
Overall balance (incl. PIP and stat. discrepancy) 6/	-6.1	-5.5	-5.4	-4.3	-5.7	-5.4	-4.2	-4.6	-4.6
Domestic financing	-1.3	-1.0	1.3	0.2	1.3	1.3	1.7	1.1	0.8
External financing	7.4	6.5	4.2	4.1	4.5	3.8	2.0	2.4	2.4
Overall balance (incl. PIP and stat. discrepancy) + Roghun OJSC 2/	-6.1	-5.5	-5.4	-1.7	-6.4	-8.1	-6.2	-6.1	-5.9
Roghun financing (domestic deposits)	...	...	...	-2.6	0.7	0.6	0.4	0.2	0.0
Roghun financing (external borrowing)	...	...	...	0.0	0.0	2.1	1.7	1.2	1.3
Total public and publicly-guaranteed debt	34.9	30.0	34.3	36.4	37.4	39.9	41.5	41.8	41.5
<b>Monetary sector</b>									
Broad money (12-month percent change)	78.8	6.3	39.6	20.7	18.7	18.8	18.9	18.9	18.9
Reserve money (12-month percent change)	40.3	29.6	39.2	17.2	16.3	17.8	17.8	16.1	14.9
Credit to private sector (12-month percent change) 7/	58.7	19.4	-2.2	-22.1	8.8	-1.7	6.4	13.1	22.4
Velocity of broad money (eop)	4.7	5.8	5.2	5.2	5.2	5.1	5.0	4.9	4.8
Interest rate (weighted average NBT bill rate, in percent)	7.3	12.2	4.8	...	...	...	...	...	...
(In percent of GDP, unless otherwise indicated)									
<b>External sector 3/</b>									
Exports of goods and services (U.S. dollar, percent change)	16.9	12.8	-7.1	13.7	8.3	11.2	9.9	10.2	8.8
Imports of goods and services (U.S. dollar, percent change)	57.9	45.0	-26.8	16.5	11.6	13.0	9.8	9.9	8.4
Current account balance	-8.6	-7.7	-4.9	-3.5	-5.4	-7.5	-5.9	-5.9	-5.7
Total public and publicly guaranteed external debt	33.7	29.2	33.5	33.5	34.2	36.4	36.5	36.1	35.7
Gross official reserves (in U.S. dollars) 4/	85	150	278	447	557	627	697	767	867
in months of next year's imports 5/	0.4	0.8	1.1	1.6	1.7	1.8	1.8	1.8	1.9
in percent of broad money	9.1	15.1	16.7	21.0	21.3	19.5	17.7	15.9	14.7
<b>Memorandum items:</b>									
Nominal GDP (in millions of somoni)	12,780	17,609	20,623	25,019	29,686	34,911	40,688	47,422	55,271
Nominal GDP (in millions of U.S. dollars)	3,712	5,135	4,982	5,712	6,547	7,420	8,396	9,501	10,750
Nominal effective exchange rate (Index 2000=100)	85.1	82.7	75.6	...	...	...	...	...	...
Real effective exchange rate (Index 2000=100)	96.0	104.1	97.4	...	...	...	...	...	...
Average exchange rate (somon per U.S. dollar)	3.44	3.43	4.14	...	...	...	...	...	...

Sources: Data provided by the Tajikistan authorities; and Fund staff estimates.

1/ Private investment and savings are estimates. Investment includes changes in stocks.

2/ For consolidation, Roghun equity sales in 2010-11 are added to general government revenue. Over 2011-15, it is assumed that the remaining financing needs of Roghun OJSC are met from external sources at concessional terms.

3/ Receipts from aluminium exports under the tolling arrangements are booked as services exports.

4/ Includes SDR 81.2 million allocation in Q3 2009.

5/ Excluding electricity, which is on barter basis, and imports related to projects financed with loans from China.

6/ For 2012-15, financing will partly come from yet to be identified fiscal measures.

7/ Decline in 2010 is due to resolution of Kredit Invest (KI) carrying large non-performing loans to the cotton sector.



Table 2. Tajikistan: General Government Operations, 2007-11  
(In millions of somoni; unless otherwise indicated)

	2007	2008	2009	2010				2011
				H1 EBS/10/95	H1 Act.	Year EBS/10/95	Year Proj.	
Overall revenues and grants	2,871	3,895	4,828	2,505	2,395	5,555	5,570	7,070
Total revenues	2,621	3,610	4,120	2,238	2,221	4,963	5,047	6,417
Tax revenues	2,274	3,289	3,635	1,997	1,955	4,428	4,512	5,478
Income and profit tax	305	453	609	337	362	748	784	904
Payroll taxes	253	346	481	264	258	586	594	730
Property taxes	92	121	143	77	67	170	158	197
Taxes on goods and services	1,398	2,081	2,122	1,172	1,120	2,599	2,641	3,299
International trade and operations tax	226	288	280	147	148	326	335	349
Non tax revenues, <i>of which</i>	347	320	485	241	265	535	535	940
Extra-budgetary funds	218	176	270	128	134	284	284	430
Grants	249	286	709	267	175	592	523	653
<i>Of which: Public Investment Program (PIP) fina</i>	215	286	332	145	85	322	322	492
Total expenditures and net lending	3,661	4,937	5,898	3,191	2,549	7,021	6,652	8,790
Current expenditures	1,740	2,223	3,017	1,797	1,538	3,985	3,984	4,967
Expenditures on goods and services	1,197	1,525	2,009	1,230	1,005	2,727	2,727	3,409
Wages and salaries	525	726	971	515	525	1,141	1,141	1,452
Others	672	799	1,038	715	480	1,585	1,585	1,957
<i>Of which: extra-budgetary funds</i>	143	222	170	128	158	284	284	430
Interest payments	59	54	104	58	50	129	127	201
External	34	53	88	48	50	106	105	159
Domestic	25	2	15	10	0	23	23	42
Transfers and subsidies	484	643	904	510	483	1,130	1,130	1,356
Transfers to households	445	593	837	442	450	981	981	1,221
Subsidies and other current transfers	39	51	68	67	33	149	149	136
Capital expenditures	1,914	2,551	2,727	1,311	923	2,906	2,522	3,816
Externally financed PIP	1,207	1,494	1,337	695	357	1,542	1,157	1,901
Domestically financed	707	1,057	1,390	615	566	1,364	1,364	1,915
Net lending 1/	8	163	154	83	87	129	147	7
Statistical discrepancy ("+" = additional spending)	-10	-72	51	...	119	...	...	...
Overall balance (incl. PIP)	-780	-970	-1,121	-686	-272	-1,466	-1,082	-1,706
Overall balance (excl. PIP and PIP-related grants)	202	239	-115	-136	1	-247	-247	-297
Total financing (incl. PIP)	780	970	1,121	686	272	1,466	1,082	1,706
Net external	947	1,149	858	506	212	1,122	1,035	1,332
Disbursements	1,100	1,209	1,014	550	273	1,220	1,142	1,454
Program loans	0	0	0	0	0	0	307	45
Project loans	1,100	1,209	1,014	550	273	1,220	835	1,409
Amortization	-153	-60	-156	-44	-61	-98	-107	-122
Net domestic	-166	-179	262	180	60	345	47	374
NBT	-136	-175	84	115	23	230	-3	269
Commercial banks	-47	-57	163	58	10	100	20	80
Gross proceeds from privatization	17	53	15	7	27	15	30	25
Accumulation of arrears	0	0	0	0	0	0	0	0

Sources: Tajik authorities; and Fund staff estimates.

1/ Includes 140 million somoni lending to the cotton sector in 2008 and 180 million somoni in 2009.

Table 3. Tajikistan: General Government Operations, 2007-11  
(In percent of GDP; unless otherwise indicated)

	2007	2008	2009	2010				2011
	Act.	Act.	Act.	H1 EBS/10/95	H1 Act.	Year EBS/10/95	Year Proj.	Proj.
Overall revenues and grants	22.5	22.1	23.4	10.0	9.6	22.5	22.3	23.8
Total revenues	20.5	20.5	20.0	8.9	8.9	20.1	20.2	21.6
Tax revenues	17.8	18.7	17.6	8.0	7.8	18.0	18.0	18.5
Income and profit tax	2.4	2.6	3.0	1.3	1.4	3.0	3.1	3.0
Payroll taxes	2.0	2.0	2.3	1.1	1.0	2.4	2.4	2.5
Property taxes	0.7	0.7	0.7	0.3	0.3	0.7	0.6	0.7
Taxes on goods and services	10.9	11.8	10.3	4.7	4.5	10.5	10.6	11.1
International trade and operations tax	1.8	1.6	1.4	0.6	0.6	1.3	1.3	1.2
Non tax revenues, <i>of which</i>	2.7	1.8	2.3	1.0	1.1	2.2	2.1	3.2
Extra-budgetary funds	1.7	1.0	1.3	0.5	0.5	1.2	1.1	1.4
Grants	2.0	1.6	3.4	1.1	0.7	2.4	2.1	2.2
<i>Of which: Public Investment Program (PIP) financ</i>	1.7	1.6	1.6	0.6	0.3	1.3	1.3	1.7
Total expenditure and net lending	28.6	28.0	28.6	12.8	10.2	28.5	26.6	29.6
Current expenditures	13.6	12.6	14.6	7.2	6.1	16.2	15.9	16.7
Expenditures on goods and services	9.4	8.7	9.7	4.9	4.0	11.1	10.9	11.5
Wages and salaries	4.1	4.1	4.7	2.1	2.1	4.6	4.6	4.9
Others	5.3	4.5	5.0	2.9	1.9	6.4	6.3	6.6
<i>Of which: extra-budgetary funds</i>	1.1	1.3	0.8	0.5	0.6	1.2	1.1	1.4
Interest payments	0.5	0.3	0.5	0.2	0.2	0.5	0.5	0.7
External	0.3	0.3	0.4	0.2	0.2	0.4	0.4	0.5
Domestic	0.2	0.0	0.1	0.0	0.0	0.1	0.1	0.1
Transfers and subsidies	3.8	3.7	4.4	2.0	1.9	4.6	4.5	4.6
Transfers to households	3.5	3.4	4.1	1.8	1.8	4.0	3.9	4.1
Subsidies and other current transfers	0.3	0.3	0.3	0.3	0.1	0.6	0.6	0.5
Capital expenditures	15.0	14.5	13.2	5.2	3.7	11.8	10.1	12.9
Externally financed PIP	9.4	8.5	6.5	2.8	1.4	6.3	4.6	6.4
Domestically financed	5.5	6.0	6.7	2.5	2.3	5.5	5.5	6.5
Net lending 1/	0.1	0.9	0.7	0.3	0.3	0.5	0.6	0.0
Statistical discrepancy ("+" = additional spending)	-0.1	-0.4	0.2	...	0.5	...	...	...
Overall balance (incl. PIP)	-6.1	-5.5	-5.4	-2.7	-1.1	-5.9	-4.3	-5.7
Overall balance (excl. PIP and PIP-related grants)	1.6	1.3	-0.6	-0.5	0.0	-1.0	-1.0	-1.0
Total financing (incl. PIP)	6.1	5.5	5.4	2.7	1.1	5.9	4.3	5.7
Net external	7.4	6.5	4.2	2.0	0.8	4.5	4.1	4.5
Disbursements	8.6	6.9	4.9	2.2	1.1	4.9	4.6	4.9
Program loans	0.0	0.0	0.0	0.0	0.0	0.0	1.2	0.2
Project loans	8.6	6.9	4.9	2.2	1.1	4.9	3.3	4.7
Amortization	-1.2	-0.3	-0.8	-0.2	-0.2	-0.4	-0.4	-0.4
Net domestic	-1.3	-1.0	1.3	0.7	0.2	1.4	0.2	1.3
NBT	-1.1	-1.0	0.4	0.5	0.1	0.9	0.0	0.9
Commercial banks	-0.4	-0.3	0.8	0.2	0.0	0.4	0.1	0.3
Gross proceeds from privatization	0.1	0.3	0.1	0.0	0.1	0.1	0.1	0.1
Accumulation of arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum item:</i>								
Public debt (in percent of GDP)	34.9	30.0	34.3			35.9	36.4	37.4
Nominal GDP (In millions of somoni)	12,780	17,609	20,623			24,665	25,019	29,686

Sources: Tajik authorities; and Fund staff estimates.

1/ Includes 140 million somoni lending to the cotton sector in 2008 and 180 million somoni in 2009.

Table 4. Tajikistan: Accounts of the National Bank of Tajikistan, 2007–11

	2007	2008	2009	2010				2011
	Dec. Act.	Dec. Act.	Dec. Act.	March Act.	June Act.	Sept. Proj.	Dec. Proj.	Dec. Proj.
	(In millions of somoni)							
Net foreign assets	907	264	661	779	940	1,160	1,274	1,608
of which: Net international reserves 1/ 2/	121	369	1,034	1,120	1,208	1,428	1,544	1,947
Gross reserves 2/	296	519	1,217	1,353	1,549	1,770	1,975	2,584
Gross reserve liabilities	175	151	183	233	341	342	431	0
Net domestic assets	525	1,592	1,922	1,447	1,333	1,481	1,753	1,913
Net credit to general government	-774	-949	-865	-1,350	-1,276	-1,052	-735	-388
General government	-774	-949	-860	-896	-837	-727	-506	-238
Roghun JSC	...	...	-5	-455	-439	-325	-228	-151
Credit to the private sector 3/	1,162	2,359	1,687	2,542	2,684	2,877	2,842	2,795
Claims on banks	982	2,241	1,577	2,444	2,522	2,330	2,295	2,248
Of which:								
Cotton sector	885	2,019	1,247	2,133	2,361	1,977	1,977	1,977
NBT bills	-10	0	0	0	-63	0	0	0
Liquidity loans	0	40	164	154	78	182	147	100
Credit to non bank institutions	180	118	110	98	162	547	547	547
Other items, net	137	182	1,100	255	-76	-344	-355	-494
Of which: Retained profits and provisions (+ losses)	12	2,143	2,271	...	...	...	...	...
Reserve money	1,432	1,856	2,583	2,225	2,273	2,641	3,027	3,521
Currency in circulation	1,123	1,566	2,041	1,842	1,961	2,219	2,543	2,887
Bank reserves	249	278	533	380	311	422	483	633
Required reserves	139	157	181	193	192	284	329	405
Other bank deposits	109	121	353	187	119	137	154	228
	(12-month growth in percent of reserve money)							
Reserve money	40.3	29.6	39.2	33.2	23.5	21.7	17.2	16.3
Net foreign assets	22.9	-44.9	21.4	32.6	35.1	36.0	23.8	11.0
Of which: gross international reserves	33.8	15.6	37.6	57.5	53.3	27.1	29.4	20.1
Of which: net international reserves	31.6	17.3	35.8	53.0	49.5	23.8	19.8	13.3
Net domestic assets	17.4	74.5	17.8	0.6	-11.6	-14.3	-6.6	5.3
Of which:								
Net credit to general government	-13.5	-12.2	4.5	-14.4	-15.1	-3.2	5.0	11.5
Credit to the private sector	22.5	83.6	-36.2	2.7	-0.1	0.3	44.7	-1.5
Of which: NBT bills	-0.6	0.7	0.0	0.0	-3.0	0.3	0.0	0.0
Other items net	8.4	3.1	49.4	12.3	3.6	-11.5	-56.3	-4.6
<i>Memorandum items:</i>								
Net international reserves (in millions of U.S. dollars)	35	107	236	256	276	326	350	420
Net international reserves (percent of broad money)	4.4	12.7	25.6	30.2	30.1	31.9	31.8	33.8
Official exchange rate (somon/U.S. dollars)	3.44	3.45	4.37	4.37	4.38	...	...	...
Guarantee settlement (in millions of U.S. dollars)	...	...	38	...	...	...	...	...

Sources: National Bank of Tajikistan; and Fund staff estimates.

1/ Includes SDR 81.2 million allocation in Q3 2009.

2/ Excludes non-monetary gold.

3/ Increase in the beginning of 2010 reflects reclassification of credits to Kredit Invest according to cotton debt resolution strategy.

Table 5. Tajikistan: Monetary Survey, 2007–11

	2007	2008	2009	2010			2011	
	Dec.	Dec.	Dec.	March	June	Sept.	Dec.	
	Act.	Act.	Act.	Act.	Act.	Proj.	Proj.	
(In millions of somoni, end-of-period stock; unless otherwise specified)								
Net foreign assets	59	-256	700	893	989	1,209	1,324	1,657
National Bank of Tajikistan 1/	907	264	661	779	940	1,160	1,274	1,608
Commercial banks	-849	-520	39	115	49	49	49	49
Net domestic assets	2,697	3,181	3,378	2,845	3,060	3,313	3,572	4,144
Net credit to general government (incl. Roghun OJSC)	-859	-1,091	-797	-1,576	-1,198	-1,240	-975	-626
National Bank of Tajikistan	-774	-949	-865	-1,350	-1,276	-1,052	-735	-388
Commercial banks	-85	-142	68	-225	78	-188	-240	-238
Credit to the private sector	3,794	4,530	4,429	3,872	3,465	3,445	3,449	3,753
Other items, net	-238	-257	-254	549	793	1,107	1,098	1,017
Broad money, excl. bills payable	2,736	2,908	4,039	3,704	4,007	4,481	4,854	5,760
Somoni broad money	1,447	1,952	2,559	2,212	2,274	2,542	2,754	3,268
Currency outside banks	1,037	1,406	1,776	1,524	1,548	1,731	1,875	2,113
Deposits	410	546	783	689	726	812	879	1,155
Foreign currency deposits	1,289	955	1,480	1,492	1,734	1,939	2,100	2,492
Bills payable 2/	19	17	39	34	41	41	41	41
(12 month growth in percent of broad money )								
Broad money, excl. bills payable	78.8	6.3	38.9	31.5	27.0	26.6	20.2	18.7
Net foreign assets	4.8	-11.5	32.9	40.3	32.8	22.3	15.4	6.9
National Bank of Tajikistan	15.3	-23.5	13.6	19.3	20.5	22.1	15.2	6.9
Commercial banks	-10.5	12.0	19.2	21.0	12.3	0.2	0.3	0.0
Net domestic assets, incl. bills payable	74.7	17.7	6.8	-8.2	-6.3	3.2	4.8	11.8
Net credit to general government	-12.1	-8.5	10.1	-11.5	-2.3	-2.5	-4.4	7.2
Credit to the private sector	91.7	26.9	-3.5	-27.8	-50.6	-52.0	-24.3	6.3
Other items, net	-4.9	-0.7	0.1	31.2	46.6	57.7	33.5	-1.7
Bills payable	0.7	-0.1	0.7	0.6	-0.5	-1.1	0.1	0.0
<i>Memorandum items:</i>								
Credit to the private sector (12-month percent change)	58.7	19.4	-2.2	-16.8	-31.6	-34.8	-22.1	8.8
Deposit dollarization (in percent)	76.4	63.9	65.6	68.5	70.5	...	...	...
Velocity	4.7	5.8	5.2	...	...	...	5.2	5.2
Money multiplier	1.9	1.6	1.6	...	...	...	1.6	1.6

Sources: National Bank of Tajikistan; and Fund staff estimates.

1/ Revised from EBS/09/43 to exclude non-monetary gold.

2/ Liabilities to cotton financiers related to domestic cotton financing.

Table 6. Tajikistan: Balance of Payments, 2007–15  
(In millions of U.S. dollars, unless otherwise indicated)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-319	-393	-245	-200	-353	-559	-494	-556	-612
Balance on goods and services 1/	-1,788	-2,839	-1,909	-2,246	-2,537	-2,886	-3,168	-3,480	-3,768
Balance on goods	-1,673	-2,722	-1,929	-2,262	-2,525	-2,871	-3,150	-3,463	-3,768
Exports	385	457	457	517	572	658	725	797	879
Imports	-2,058	-3,179	-2,387	-2,779	-3,097	-3,530	-3,874	-4,260	-4,647
Balance on services	-115	-117	21	16	-12	-15	-19	-17	0
Balance on income	-86	-53	-71	-71	-61	-63	-68	-75	-84
Balance on transfers	1,555	2,499	1,735	2,117	2,245	2,390	2,742	2,999	3,240
Of which: migrants' remittances, net	1,487	2,343	1,622	2,028	2,184	2,341	2,700	2,964	3,209
Capital and financial account	293	489	256	194	339	367	353	449	519
Capital transfers	31	39	120	73	63	52	57	52	48
Public sector (net)	273	313	209	143	278	267	170	228	261
Disbursements	308	352	241	191	271	302	270	332	345
Of which: projects financed by China	217	277	137	74	119	105	100	100	100
Amortization	-35	-39	-32	-47	-32	-76	-101	-104	-83
FDI	160	300	16	90	110	190	260	300	340
Commercial bank NFA (- increase)	44	-99	-155	-5	1	0	0	1	1
NBT 2/	-102	241	28	0	0	0	0	0	0
Other capital flows and errors and omissions 3/ 4/	-114	-305	39	-108	-114	-142	-134	-132	-132
Overall balance	-26	96	11	-6	-15	-192	-141	-107	-93
Financing items	26	-96	-128	-169	-110	-70	-70	-74	-112
Use of international reserves (- increase)	26	-65	-128	-169	-110	-70	-70	-70	-100
IMF disbursements	0	-31	-15	0	0	0	0	-4	-12
Exceptional financing 5/	...	...	15	0	0	0	0	0	0
Financing gap	0	0	117	175	125	262	211	181	205
IMF	...	...	40	59	40	20	0	0	0
Other identified and potential financing	...	...	76	116	85	82	31	31	31
World Bank	...	...	21	25	10	10	...	...	...
AsDB	...	...	40	10	14	10	...	...	...
EC	...	...	16	11	11	12	...	...	...
Anti-crisis Fund	...	...	...	70	50	50	...	...	...
Residual financing gap 6/	...	...	...	...	...	160	180	150	174
<i>Memorandum items:</i>									
Nominal GDP	3,712	5,135	4,982	5,707	6,549	7,422	8,398	9,503	10,753
Current account balance (in percent of GDP)	-8.6	-7.7	-4.9	-3.5	-5.4	-7.5	-5.9	-5.9	-5.7
Gross reserves	85	150	278	447	557	627	697	767	867
(in months of next year's imports of goods and services) 7/	0.4	0.7	1.1	1.6	1.7	1.8	1.8	1.8	1.9
Total Public and Publicly Guaranteed (PPG) external sector det	1,253	1,498	1,671	1,916	2,238	2,698	3,063	3,434	3,837
(in percent of GDP)	33.7	29.2	33.5	33.6	34.2	36.4	36.5	36.1	35.7
Debt service on PPG external debt	50	91	153	75	62	109	135	146	138
(in percent of exports of goods and services)	6.5	10.5	19.0	8.2	6.3	9.9	11.2	10.9	9.5

Sources: Tajik authorities; and Fund staff estimates.

1/ Starting from 2005, the export and import figures reflect the transition to the tolling arrangement for aluminium exports.

2/ Includes SDR 82.1 million allocation to Tajikistan in Q3 2009.

3/ Includes change in foreign currency balances held by residents of Tajikistan.

4/ For 2008, includes the decline in other foreign liabilities which resulted from pledged deposits settlement.

5/ Pakistan's government converted Tajikistan's debt into a grant in 2009.

6/ The financing gap in 2012-15 includes financing for the Roghun HPP. The World Bank feasibility studies (instrumental in identifying the financing) are ongoing.

7/ Excluding electricity, which is on barter basis, and imports related to projects financed with loans from China.

8/ External debt is defined as debt to nonresidents.

Table 7. Tajikistan: External Financing Requirements and Sources, 2007–2015  
(In millions of U.S. dollars)

	IMF Staff Projections								
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total requirements	354	432	277	248	380	624	579	646	695
Current account deficit	319	393	245	200	353	559	494	556	612
Debt amortization	35	39	32	48	27	65	84	90	83
Multilateral 1/	5	9	14	17	19	35	39	42	32
Bilateral	30	30	19	31	8	29	45	48	52
Total sources	329	528	289	241	371	443	454	553	602
Capital inflows	329	528	289	241	371	443	454	553	602
Foreign direct investment	160	300	16	90	110	190	260	300	340
Disbursement from official creditors 2/	339	391	362	264	374	395	327	384	393
Other flows 3/	-171	-163	-89	-113	-113	-142	-133	-131	-131
Change in reserves (- increase)	26	-65	-128	-169	-110	-70	-70	-70	-100
Financing gap	0	31	-117	-176	-120	-251	-195	-164	-193
Financing items 4/	0	-31	117	175	125	262	211	177	193
IMF 5/	0	-31	25	59	40	20	0	-4	-12
Other financing	0	0	92	116	85	242	211	181	205
AsDB	...	...	40	10	14	10	10	10	10
EC	...	...	16	11	11	12	11	11	11
World Bank	0	0	21	25	10	10	10	10	10
Anti-Crisis Fund	...	...	...	70	50	50	0	0	0
Exceptional financing	0	0	15	0	0	0	0	0	0
Unidentified financing	0	0	0	0	0	160	180	150	174

Sources: Tajik authorities, and Fund staff calculations.

1/ Excluding the IMF.

2/ Includes project loans and grants.

3/ Includes all other net financial flows, and errors and omissions.

4/ Includes estimates for potential financing.

5/ Net of repurchases.

Table 8. Tajikistan: Capacity to Repay the Fund, 2010–2020

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Existing and prospective Fund credit 1/</b>											
In millions of SDRs	65.3	91.4	104.4	104.4	101.8	94.0	79.6	60.0	39.2	20.9	7.8
In millions of US dollars	99.0	138.9	158.7	158.7	154.7	142.8	121.0	91.3	59.5	31.7	11.9
In percent of exports	10.8	14.0	14.4	13.1	11.6	9.9	7.7	5.3	3.1	1.5	0.5
In percent of external debt	3.3	4.0	4.0	3.5	3.0	2.5	2.0	1.4	0.9	0.5	0.2
In percent of gross reserves	22.1	24.9	25.3	22.8	20.2	16.5	11.9	7.8	4.5	2.2	0.7
In percent of quota	75.0	105.0	120.0	120.0	117.0	108.0	91.5	69.0	45.0	24.0	9.0
<b>Fund obligation based on existing credit</b>											
In millions of SDRs	0.0	0.0	0.2	0.2	2.8	8.0	10.6	10.6	10.5	7.9	2.7
In millions of US dollars	0.0	0.1	0.3	0.3	4.2	12.1	16.1	16.0	16.0	12.0	4.0
In percent of exports	0.0	0.0	0.0	0.0	0.3	0.8	1.0	0.9	0.8	0.6	0.2
In percent of external debt	0.0	0.0	0.0	0.0	0.1	0.2	0.3	0.2	0.2	0.2	0.1
In percent of gross reserves	0.0	0.0	0.1	0.0	0.7	1.9	2.4	2.3	2.2	1.6	0.5
In percent of quota	0.0	0.0	0.2	0.2	3.2	9.2	12.2	12.1	12.1	9.1	3.0
<b>Fund obligation based on existing and prospective credit</b>											
In millions of SDRs	0.0	0.0	0.3	0.3	2.9	8.1	14.6	19.8	21.1	18.4	13.1
In millions of US dollars	0.0	0.0	0.4	0.4	4.4	12.3	22.2	30.0	31.9	27.9	19.9
In percent of exports	0.0	0.0	0.0	0.0	0.3	0.9	1.4	1.7	1.7	1.3	0.9
In percent of external debt	0.0	0.0	0.0	0.0	0.1	0.2	0.4	0.5	0.5	0.4	0.3
In percent of gross reserves	0.0	0.0	0.1	0.1	0.8	1.9	3.3	4.3	4.4	3.7	2.5
In percent of quota	0.0	0.0	0.3	0.3	3.3	9.3	16.8	22.7	24.2	21.1	15.1
<b>Memorandum items:</b>											
Gross reserves (in millions of US dollars)	447	557	627	697	767	867	1,017	1,167	1,317	1,467	1,617
Quota (in millions of SDRs)	87	87	87	87	87	87	87	87	87	87	87

Sources: Tajik authorities; and Fund staff estimates.

1/ End of period.

Table 9. Tajikistan: Reviews and Disbursements under the Three-Year ECF Arrangement, 2009-12

Date	Action	Disbursements, million SDRs
On May 7, 2009	Approval of the ECF arrangement	26.100
On or after April 15, 2010	Completion of the first and second reviews	26.120
On or after September 15, 2010	Completion of the third review	13.045
On or after March 15, 2011	Completion of the fourth review	13.045
On or after September 15, 2011	Completion of the fifth review	13.045
On or after March 15, 2012	Completion of the sixth review	13.045

Source: Fund staff estimates.



Table 10. Tajikistan: Financial Soundness Indicators, 2004–2010  
(In percent, unless otherwise indicated)

	2004	2005	2006	2007	2008	2009	Jun-10	Sep-10
<b>Capital adequacy</b>								
Tier I capital as percent of risk-weighted assets	38.7	34.2	27.8	19.4	24.2	25.4	23.8	22.9
Reported total capital to risk -weighted assets (K1-1)	44.7	37.9	30.4	21.3	29.2	30.0	26.3	24.6
<b>Asset quality 1/</b>								
Nonperforming loans to gross loans	20.6	14.3	11.3	4.8	9.5	21.6	24.1	19.7
Nonperforming loans net of provisions to reg. capital	19.3	16.1	18.2	8.2	16.8	38.5	44.8	35.2
Provisions to nonperforming loans	47.2	36.8	27.8	40.5	32.5	29.4	30.5	37.9
Banks exceeding maximum single borrower limit 2/	3of12	2of12	1of9	1of10	1of12	1of13	2 of 14	4 of 14
<b>Earnings and profitability</b>								
Reported return on assets (ROA)	2.9	4.7	3.8	2.7	2.0	0.8	-1.7	-0.6
Reported return on equity (ROE)	10.2	17.2	16.1	16.8	11.0	3.4	-7.9	-3.0
Interest income to gross income	42.7	48.2	47.9	57.5	59.6	53.0	49.6	48.6
Non-interest expenditures to gross income	61.0	55.2	63.2	59.7	55.3	67.1	60.7	70.1
Salary expenditures to non-interest expenditures	25.8	27.1	21.6	26.5	32.1	21.1	26.8	22.9
<b>Liquidity</b>								
Liquid assets to total assets	36.9	30.0	39.9	39.9	27.2	28.2	23.4	24.6
Liquid assets to demand and savings deposits	113.5	80.2	84.0	112.6	104.1	112.2	109.7	125.3
Liquid assets to total deposits	71.2	54.9	57.9	61.3	60.0	56.6	50.9	53.5
<b>Sensitivity to market risk</b>								
Net open position in foreign exchange to capital	36.3 long	8.8 long	5.9 long	13.4 long	6.3 long	6.7 long	6.1 long	85 long

Sources: National Bank of Tajikistan

1/ Nonperforming loans includes loans more than 1 day overdue.

2/ Maximum single borrower limit is defined as 25 percent of capital (K3-1).

**ATTACHMENT I. TAJIKISTAN: LETTER OF INTENT**

November 9, 2010

His Excellency  
Mr. Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
700 19th Street, N.W.  
Washington, DC 20431

Dear Mr. Strauss-Kahn:

I would like to express my gratitude to the International Monetary Fund (IMF) for its continued support of our economic reforms during this difficult time in the world economy. Particularly in light of the many external challenges we face, advice and support from the IMF, other international financial institutions, and donors has been essential in helping us meet the needs of our population and support a stable recovery from the global financial crisis. In this context, it is my pleasure to inform you that, despite a number of challenging circumstances, we have broadly adhered to the targets and objectives of the program supported by the Extended Credit Facility (ECF). The program framework continues to help us maintain macroeconomic stability and make progress on our structural reform agenda.

I am pleased to report that, with one exception (the ceiling on contracting of non-concessional external debt); we have met all the quantitative performance criteria for end-June 2010 under the program, and even managed to build net international reserves (NIR) at a moderately faster pace than projected. We also achieved our fiscal balance target for end-June 2010, despite revenue shortfalls related to disruptions in rail shipments. However, we missed by a relatively small margin the indicative target on tax collection—again due to the delay in shipments and lower-than-expected VAT collections on imports. We also experienced a shortfall in our spending on social sectors. While current social spending (wages and salaries, pensions, and transfers) was largely as anticipated, capital spending related to social objectives fell short during the first six months. We intend to address this shortfall in the remaining months of 2010, while staying within the agreed budget deficit target.

With respect to structural reforms, we have proceeded with the strategy to resolve the cotton debt problem and recapitalize the NBT. A presidential order requiring investors to make quarterly payments on their cotton debts was issued in August. The ministry of finance has also issued Treasury bills to commercial banks to compensate them for non-performing cotton loans. A range of reforms related to internal governance have also been completed as part of an NBT action plan—including the establishment of an audit committee, and publication on the NBT's website of a register of commercial interests by NBT Board

members and management. The external audit of the NBT for the financial year ending December 2009 has also been completed. On the state enterprise sector, a tender for an audit of the Roghun OJSC has been completed, and our objective is to have the audit completed and published on the ministry of finance website by February 2011. There have been delays—mainly technical or due to capacity constraints—in producing quarterly reports on Roghun’s operations. The first report will be published on the ministry of finance website in November 2010. We expect this to become a more regular process moving forward and remain committed to transparency with respect to the operations of Roghun OJSC. The external audit of Tajikistan’s aluminum smelter Talco for the years 2006–08 has been completed and published on the company’s website. Some other benchmarks related to external audits were delayed by several months but will be completed, as specified in the attached Memorandum of Economic and Financial Policies (MEFP).

We request a waiver for the non-observance of the performance criteria on the contracting of non-concessional external debt on the grounds that the deviation relative to the required level of concessionality under the program was minor, and that corrective actions are being taken. The non-observance was due to a technical oversight, and closer coordination with IMF staff will help to avoid this problem in the future.

Looking ahead, our country’s economic circumstances and external environment have improved, but challenges and risks remain. Economic growth is on the upswing, and inward remittances have shown a welcome recovery from the devastating decline in 2009. However, the impact of the global crisis, as well as the rail blockade continue to linger in the economy. Higher inflation from the recent surge in wheat prices is another concern, as is continued weakness in the financial sector. Against this background, maintaining external and macroeconomic stability will remain the overarching objective of economic policies. Within this constraint, fiscal policy is faced with the need to continue raising social and capital expenditures while external financing flows decline in the post-crisis environment. An improvement of banks’ financial situation is needed to rekindle credit extension and facilitate private-sector led growth.

We hereby request the completion by the Executive Board of the third review under the ECF, and disbursement of the fourth loan totaling an amount equivalent to SDR 13.045 million. In parallel, we are also seeking concessional support from other donors for the coming year. Together with our development partners we prepared the third Poverty Reduction Strategy (PRS) covering the period 2010-13. The PRS, which includes an assessment of the past progress in this area and set new development goals, was adopted by the Parliament in February. For the third ECF review we have reached understandings with staff regarding prior actions and request a waiver for nonobservance of the performance criterion on nonconcessional external debt, modification of end-December performance criterion on NIR and, for 2011, the establishment of quantitative performance criteria for end-June and end-

December, as well as indicative targets, and structural benchmarks described in the attached MEFP, to enable us to monitor progress in implementing our reform agenda.

The Government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. We will consult with the Fund on the adoption of these measures and in advance of any revision to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. We intend to remain in close consultation with Fund staff and provide timely information necessary for monitoring economic developments and implementation of policies under the ECF. In addition, the Government stands ready to take any further measures that might be required to ensure that the overall objectives of the program are attained.

Finally, in continuing with our commitment to transparency, we hereby request that all program related documents, including this letter, be published on the IMF website.

Your Excellency, please accept my assurances of my highest consideration,  
/s/

Emomali Rakhmon  
President of the Republic of Tajikistan

Attachments:

Table 1. Tajikistan: Quantitative Performance Criteria under the 2009–12 Extended Credit Facility for 2010 and 2011

Table 2. Tajikistan: Structural Benchmarks for 2010 and prior actions for the third review.

Table 3. Tajikistan: Structural Benchmarks for 2011

Memorandum of Economic and Financial Policies

Technical Memorandum of Understanding

Table 1. Tajikistan: Quantitative Performance Criteria and Indicative Targets under the 2010–11 Extended Credit Facility (ECF)

(In millions of somoni, unless otherwise indicated)

	2009		2010						2011			
	End-Dec	End-March		End-June		End-Sept.		End-Dec.		End-March	End-June	End-Dec.
	Act.	Prog.	Act.	Prog.	Act.	Prog.	Adj. Prog.	Prog.	Adj. Prog. 4/	Prog.	Prog.	Prog.
<i>Quantitative Performance Criteria (PC):</i>												
1. Ceiling on cumulative flow of net domestic assets of the NBT 1/ 2/	...	-430	-452	-344	-464	-108	-414	226	-80	-6	51	163
2. Floor on cumulative flow of total net international reserves (in millions of U.S. dollars) 1/ 2/	...	3	21	12	26	33	103	48	111	14	25	70
3. Zero-ceiling on new lending from the NBT to private sector (continuous quantitative performance criterion) 2/	...	0	0	0	0	0	...	0	...	0	0	0
4. Floor on cumulative overall fiscal balance of the general government excluding foreign-financed Public Investment Program and related grants 2/	...	-53	7	-135	1	-192	...	-247	...	-66	-134	-297
5. Ceiling on general government wage and pension arrears (continuous quantitative performance criterion)	...	0	0	0	0	0	...	0	...	0	0	0
6. Ceiling on contracting or guaranteeing of any non-concessional external debt (continuous quantitative performance criterion)	...	0	30	0	15	0	...	0	...	0	0	0
7. Ceiling on disbursements of concessional external financing (in millions of U.S. dollars) 2/	...	122	23	173	59	229	299	272	342	77	154	308
8. New external payments arrears (continuous quantitative performance criterion)	...	0	0	0	0	0	...	0	...	0	0	0
<i>Indicative Targets (IT):</i>												
1. Floor on tax collection 2/	...	989	929	1,997	1,955	3,102	...	4,428	...	1,223	2,470	5,478
2. Floor on social and poverty-related expenditure 2/	...	559	405	1,118	1,010	1,680	...	2,351	...	710	1,421	2,841
3. Ceiling on gross equity sales and contributions for Roghun (in millions of somoni) 3/	...	800	799	850	820	870	...	880	...	880	880	880
4. Ceiling on loans to banks for liquidity purposes by the NBT (stock)	...	179	154	153	78	150	...	147	...	140	120	100
<i>Memorandum items:</i>												
Program exchange rate	4.37											
NDA of the NBT (in millions of somoni) 1/	1,922	1,492	1,470	1,578	1,458	1,814	1,508	2,148	1,842	1,836	1,893	2,005
Net international reserves (in millions of U.S. dollars)	239	242	260	251	265	272	342	287	350	365	375	420

1/ At program exchange rates of end-December 2009.

2/ Cumulative from January 1 of the year; performance criteria for end-June and end-December 2010 and 2011, and indicative targets for end-March and end-September.

3/ Cumulative from January 1, 2010.

4/ Floor on cumulative NIR is adjusted and revised.

Table 2. Tajikistan: Structural Benchmarks for 2010

	Date	Rationale	Status
<b><i>Structural Benchmarks and Prior Actions for Third Review</i></b>			
Issue a government order to require cotton investors to start paying principal (in equal installments) and interest on their outstanding debt to the NBT	End-June	Key element of NBT recapitalization strategy	Met on August 12, 2010
Issue a tender for an audit of the 2008 and 2009 financial statements of Roghun OJSC by a reputable international firm.	End-June	Transparency	Met on June 30, 2010.
Issue a tender for an external audit of Talco Management's 2008 and 2009 financial statements by a reputable international audit firm.	5 working days prior to Executive Board Meeting	Transparency	
Roghun supervisory board report on a quarterly basis to the public about the sources and uses of funds, including detailed information on the contractors hired by Roghun OJSC, their owners, and the bidding process used to award all contracts.	5 working days prior to Executive Board Meeting and each quarter thereafter	Transparency and governance	
<b><i>Structural Benchmarks for Second Half of 2010</i></b>			
Publish the NBT's December 2009 audited financial statement together with the audit report on the NBT's website.	End-September	Transparency	Completed
Submit to parliament a bankruptcy law for credit institutions.	End-December	Strengthen the banking system	
Submit to parliament a draft NBT law consistent with IMF staff advice.	End-December	Enhance central bank governance	

Table 3. Tajikistan: Structural Benchmarks for 2011

	Date	Rationale	Status
Publish the audited financial statements of Roghun OJSC for 2008 and 2009 with the audit reports on the ministry of finance's website.	End-February	Transparency	
Banks not meeting established prudential criteria to submit to NBT for approval time-bound actions plans to become fully compliant with these standards, including correct provisioning for non-performing loans.	End-March	Financial sector stability	
Expand the number of large taxpayers under the Large Taxpayer Inspectorate (LTI)	End-June	PFM / Revenue	
Issue a government resolution specifying a multi-year (2011-2018) schedule for injections of capital from the government into the NBT as part of the NBT recapitalization plan and in line with IMF recommendations.	End-June	NBT recapitalization	
National Bank of Tajikistan to publish audited 2010 financial statement	End-September	Transparency	
Submit to cabinet a strategy for reform of the tax regime.	End-September	Revenue	
Fiscal risk statement related to condition of SOEs to be introduced as part of the published 2012 budget document	End-December	SOE governance	



**ATTACHMENT II. TAJIKISTAN: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES  
(MEFP) FOR 2009–12**

**November 9, 2010**

**I. INTRODUCTION**

1. This memorandum outlines economic and financial policies of the Government of Tajikistan for 2010–12, and augments President Rahmon’s letter of intent and the memorandum of economic and financial policies dated May 20, 2010, focusing now on our policies for the remainder of 2010 and 2011. These policies are intended to serve as the basis for the ongoing IMF-supported program under the Extended Credit Facility (ECF).
2. Tajikistan now appears to be emerging from the global economic downturn of 2009, although the impact of external shocks continue to be felt in some sectors. Real economic growth rose to over 7 percent in the first half of 2010, with particularly strong performance in electricity production, construction, and trade and services. We expect real GDP growth to reach at least 5.5 percent for the year as a whole. Inward remittances have also rebounded, in line with the recovery in neighboring economies. Total inward remittances increased by about 25 percent year-on-year through June, providing welcome income support. Inflation has been subdued for most of the year, thanks to a benign global environment. However, we expect end-year inflation to reach about 9 percent due to the recent surge in wheat and wheat flour prices. Financial sector indicators have worsened—lagging the incipient recovery and reflecting continued difficulties in the external, agricultural, and state enterprise sectors.
3. In this environment, our program focuses on safeguarding macroeconomic and balance of payments stability, supporting the poor and vulnerable segments of society, moving ahead with key infrastructure projects to address Tajikistan’s bottlenecks in the energy sector, and accelerating structural reforms, including by strengthening governance of public sector institutions and enhancing the role of the private sector.
4. We have reached understandings with IMF staff on a set of prior actions for the third review, and on quantitative performance criteria, indicative targets, and structural benchmarks for 2011. Our policy framework continues to build on the measures that we implemented during the Staff Monitored Program, and draw on more recent work, such as the special audit of the National Bank of Tajikistan (NBT), the 2007–08 Financial Sector Assessment Program, the safeguards assessment, and technical assistance in tax administration and public financial management.
5. Our macroeconomic policies are based the government’s National Development Strategy for the period until 2015, and our Poverty Reduction Strategy (2010–12). In the short term, our program aims to maintain macroeconomic stability—which is a precondition for sustained high growth and poverty reduction. Structural reforms in financial, state-owned enterprise (SOEs), and agriculture sectors are designed to enhance the growth potential of our

economy over the medium-term. In addition, we intend to move forward with key infrastructure projects in the energy sector. We believe that these reforms will give rise to sustained higher rates of economic growth, which will in turn make the biggest impact on poverty. In this context, we are committed to the principle that planned increases in better-targeted social spending and associated recurrent costs be fully covered by revenue from tax, administrative, and public financial management reforms. Given limited fiscal space, we are working closely with the Donor Coordination Council to further streamline and prioritize the PRS.

## II. MACROECONOMIC POLICIES

6. Within our overall macroeconomic policy framework, the construction of the Roghun hydropower plant (HPP) is of the highest strategic importance to address Tajikistan's energy deficit and thus lay the foundation for future growth and poverty reduction. This will be crucial to meet Tajikistan's growing energy needs, though additional generation capacity and significant maintenance on existing facilities is likely to be needed.

7. Construction of Roghun and its financing will impact our macroeconomic objectives in 2010 and beyond. The total cost of the project's first phase is estimated at around SM6 billion (\$1.4 billion, or 24 percent of 2010 GDP) of which around \$600 million would be imports. We have established a joint stock company (Roghun OJSC) with an authorized capital of SM 6 billion, 75 percent of which will be owned by the government. Beginning in January 2010, we offered equity to the public of up to 25 percent of the shares (SM 1.5 billion). Initial equity purchases and contributions yielded SM 800 million through March 2010. The Roghun advertising campaign was subsequently suspended in mid April. Since that time, a very small level of contributions have continued to accumulate (in the form of deposits of Roghun OJSC with commercial banks and a special treasury subaccount at the NBT), bringing the total level of shares sold to SM 820 million by end-June. We expect total shares sold to remain below SM 880 million by the end of the year. Through end-August, some 205 million of these deposits had been used to finance work on the project. Once the results of a techno-economic, social and environmental impact assessment of the Roghun project are available, we will revisit our financing strategy in close consultation with Fund and World Bank staff, and intend to request the World Bank to lead an international financing consortium.

8. A supervisory board, headed by the prime minister and consisting of government officials as well as representatives of private sector shareholders, oversees all financial aspects of the Roghun OJSC. The first quarterly report to the public about the sources and uses of funds, including detailed information on the contractors hired by Roghun OJSC, their owners, and the bidding process used to award all contracts will be published on the ministry of finance's website as of November 2010 (benchmark for end-June 2010). We tendered an audit of Roghun OJSC's 2008 and 2009 financial statements to a reputable international accounting firm at end-June (benchmark for end-June 2010). However we encountered

delays in finding a suitable auditor, and therefore now expect the first audit to be published by end-February 2011 (benchmark), rather than end-December 2010, as originally envisioned. Regular audits by a reputable international firm will continue on an annual basis. A first shareholder meeting will be convened by end-February 2011. In this context, we will abide by the principles set out in the OECD Guidelines on Corporate Governance of State-Owned Enterprises. In particular, we commit to equitable treatment of all shareholders and will, from October 2010 onwards, take all measures to enact registration of all minority shareholders and give them the opportunity to participate in major corporate decisions. Once profits allow, Roghun OJSC will make dividend payments to all shareholders.

9. Against this background, we have reached an understanding with IMF staff on macroeconomic policies for the remainder of 2010 and 2011. In the fiscal area, we will adhere to the deficit target of 1 percent of GDP for 2010 (excluding the externally financed public investment program—PIP) previously agreed with the IMF. For 2011, we will seek to achieve GDP growth of at least 5 percent, and limit year-end inflation to 7 percent. Given the need to balance pressing social and development needs against limited domestic resources, we intend to target a deficit of 1 percent of GDP. This will help to ensure that the economic recovery does not falter, and that the government can modestly increase social spending. We will protect social spending from expenditure cuts in case of unexpected revenue shortfalls, and use any additional donor grants (if forthcoming) for spending in this area. We will also closely monitor the overall deficit (including the externally financed PIP) closely to ensure debt sustainability. Monetary policy will continue to target reserve money growth as the nominal anchor, while we will maintain our flexible exchange rate regime. We aim to raise reserve cover from its current low levels by further accumulating net international reserves (NIR). In this context, the NBT will limit its interventions in the foreign exchange market to smoothing excess volatility.

10. In the medium term, we hope that a more favorable international environment will pave the way toward higher growth and external balance. In these circumstances we hope to significantly strengthen our international reserves position, and target a reserves coverage of 2 months of imports by 2015. In the fiscal area, we will balance the pressing spending needs in the social and infrastructure areas, while broadly aiming for overall fiscal balance (excluding PIP), with a view to keeping government debt below the ceiling of 40 percent of GDP that we have set in our debt strategy. In this context, we are committed to strengthen public debt management and reporting by public enterprises. Our strategy also addresses the fiscal impact of the cotton debt resolution (paragraph 13).

### **III. STRUCTURAL REFORMS FOR 2010-2011**

#### **A. Monetary and Financial Sector Reforms**

11. A safeguards assessment update of the NBT was completed in mid-2010. The findings indicated that initial steps have been taken to address the risks identified by the

special audit on cotton sector financing, but that considerable safeguards risks at the NBT remain. Both the accounting and the organizational structure are still fragmented, and due to the weak internal audit function and an absence of any external independent oversight, access to broad and complete information has been restricted. Consequently, there is a need to further enhance data systems and the transparency of operational integrity. Restoring the credibility of the central bank and building the required capacity in key functions, such as internal audit and financial reporting will require more time. Under our NBT action plan (shown in Table 1) we are implementing the main recommendations of the special audit of the NBT, as well as recommendations of the safeguards assessment A task force, chaired by a non-executive Board Director, to assess progress on these reforms on a semi-annual basis was appointed in June 2010. To ensure transparency and accountability, we are also fully committed to semi-annual external reviews of the NBT's net international reserves.

12. Amendments to the NBT Law in 2009 addressed key shortcomings that needed immediate action. With the objective of bringing the law in its entirety in line with international practices, we initiated an internal review in July 2010 and have also received input and recommendations from an IMF technical assistance mission in October. We intend to submit to parliament a draft NBT law consistent with Fund staff advice by end-December 2010 (benchmark), with a view to adopting the law by June 2011.

13. Our NBT recapitalization strategy balances the NBT's needs (strong balance sheet, instruments for monetary policy) and the government's interests (minimize fiscal costs). As part of the strategy, the government has resumed servicing the recapitalization bonds held by the NBT, and transferred deposits from the Multilateral Debt Relief Initiative (MDRI) from government accounts to the NBT. The NBT has in turn resumed paying interest on government deposits. In addition, the government will make annual capital injections into the NBT over the coming eight years, starting in 2011. A presidential decree was issued in August 2010 requiring cotton investors to begin paying quarterly principal (in equal installments) and interest on their outstanding debt to the NBT (benchmark for end-June 2010). Bilateral agreements with 10 of the 12 investors have already been signed and we expect payments to begin by end-September. To contribute to its recapitalization, the NBT continues to work on improving its reserve management practices. An updated strategy, taking into account progress to date and changes in market conditions, will be completed by end-2010 with IMF assistance—the recommendations of which will be accounted for in the official 2011 budget.

14. In its monetary policy operations, the NBT will continue to refrain from issuing new credits to the private sector, except for liquidity purposes or in cases of bank distress or failure (lender of last resort). All lending to commercial banks and nonbank financial institutions is restricted to the NBT's short-term liquidity facility. In consultation with IMF staff, we also adopted in mid-year a regulation establishing a remunerated deposit facility with the NBT to serve as the only deposit facility available to banks to increase the NBT's flexibility in managing its excess liquidity.

15. We seek to strengthen Tajikistan's financial sector with a view to reinvigorating private sector credit growth. The NBT monitors closely potential vulnerabilities in the banking system, paying close attention to banks' loan classification—including through on-site visits—and the Uniform Bank Performance Reports. Banks' asset quality deteriorated in 2010, impeding their scope for credit extension. Financial sector indicators have continued to show weaknesses, with a small number of banks consistently violating prudential rules (including on single party exposure limits and reserve requirements). To address these issues, the Ministry of Finance issued in May 2010 some \$90 million (SM350 million) in recapitalization bonds (as part of the cotton debt resolution) to commercial banks to improve their asset quality. When resources permit, we will review the terms of these bills with a view to enhancing their liquidity and value as collateral. By end-December the NBT will also submit to parliament a bankruptcy law for credit institutions (benchmark) in consultation with IMF staff, thereby filling a gap in our commercial bank legislation. The NBT will also require those banks not in compliance with prudential rules by end-March 2011 to develop and submit to the NBT for approval time bound plans to become fully compliant with all standards (benchmark), including correct provisioning for non-performing loans. We are also working with the World Bank to establish an appropriate anti-money laundering and counterterrorism financing framework (AML/CFT), and will submit an AML/CFT law to parliament by end-December 2010.

#### **B. Reforms in the Fiscal Area**

16. With assistance from the World Bank, we continue strengthening the civil service, and the health, and education sectors. In the health sector, this involves allocating resources in an asymmetric fashion favoring primary health care. In education, we are moving ahead with a per capita funding pilot system. In this context, we are working toward a competitive and affordable civil service wage system. We raised the minimum wage and pension in July, and in October raised public sector salaries in the context of introducing a new grade scale at five pilot government agencies. A new health insurance law has been passed that plans, over the medium-term, to introduce mandatory universal health insurance. We are also preparing a new pension law that seeks to reform the pay-as-you-go and the fully funded pillar, and generate an actuarially balanced system for migrant workers with pension entitlements. Implementation of these laws will be postponed until they have been fully costed, and integrated into our medium-term budget framework, and their poverty and social impact assessed.

17. We seek to moderately raise the revenue-to-GDP ratio over time to create space for pressing spending needs. Based on recommendations from the IMF and other donor organizations we have submitted a proposal to the cabinet for a tax administration reform strategy to be implemented during 2011-15, with a view to building capacity in tax administration and contributing to the improvement of the quality of tax administration services and better collection of budget revenue. This includes an initiative to increase the number of taxpayers covered by the Large Taxpayer Inspectorate (LTI) by June 2011

(benchmark). We have also prepared an initial inventory of existing tax and customs exemptions, and an assessment of their costs, and submitted to cabinet a proposal for reform of the exemptions regime. For 2011, we intend to undertake a review of tax policy, with a view to formulating a strategy for reform of the tax regime (benchmark) and decreasing our reliance on non-tax revenues. We will be asking the IMF, the World Bank, and other international financial institutions for technical assistance in these areas.

18. We are also pursuing steps to further enhance public financial and debt management. In this context, our public financial management strategy aims at the eventual introduction of a full Treasury Single Account (TSA) system at the Republican level and implementation of an electronic financial management information system. We have also adopted in 2010 a law on internal audit and state financial control. A registry of the gold and precious metals held by the Ministry of Finance has been completed, and these assets will be transferred to the NBT balance sheet as part of international reserves before the end of 2010. We are committed to prudent debt management, and will restrict our external borrowing to loans on concessional terms. To avoid potential problems vis-à-vis the requirements under the program, we are strengthening coordination with IMF staff to ensure that an appropriate level of concessionality is achieved for all new loans.

### **C. State-Owned Enterprises, Agriculture, and Data**

#### **State-Owned Enterprises**

19. We are taking steps to address the problem of arrears in SOEs and put them on a sound financial footing. Some arrears reflect structural deficits in SOEs, others nonpayment of dues from government entities. Arrears remain a serious problem that could potentially jeopardize macroeconomic stability. We seek to address these problems urgently and ensure that these firms are subject to financial discipline going forward. For the near-term, we have ensured that the 2011 budget includes sufficient resources for all spending agencies to remain current on their obligations. Looking ahead, to enhance transparency and highlight any risks to public finance, we intend to complete a fiscal risk assessment report as part of the draft 2012 budget (benchmark).

20. The SOE Supervision Unit is making progress to becoming fully operational, with the help of the European Commission and IMF technical assistance. Hiring and retaining qualified staff remains difficult, however. The unit has assessed the financial performance of SOEs for 2009, and their 2010 financial plans. The unit has also prepared and published reports on SOE performance that are also published on the ministry of finance's website. By June 2011, all SOE's subject to review by the SOE unit (MOF) will be required to publish 2010 financial statements and results of external audits conducted in line with accepted standards of auditing on the MOF website. We will be looking to the international community for technical assistance to support these efforts.

21. Tajikistan Aluminum Company (Talco) has undergone an external audit of its 2006-08 financial statements, and the audit report and the financial statements together with the audit opinion have been published on the company's website (benchmark for end-December 2009). Talco Management Company will soon issue a tender for an external audit of Talco Management's 2008 and 2009 financial statements by a reputable international audit firm (benchmark for end-June 2010).

22. The second-largest SOE, Barki Tajik, will—with World Bank support—continue electricity tariff adjustments in order to achieve cost recovery by end-2011. In the meantime, the government will continue to work with donors to improve the social mitigation mechanism to ensure that the most vulnerable segments of the population have access to a basic minimum of energy services. Following up on the external audit of its 2007 accounts, Barki Tajik will continue to work with the World Bank on improving its financial management. An improvement in collection of payment arrears will be essential.

23. For the purpose of disclosure of beneficial ownership of all companies registered with the ministry of finance's agency for securities, we finalized the database of beneficial ownership of all companies listed with the agency, and published it on the ministry's website.

### **Agriculture**

24. In June 2009 we adopted an action plan to resolve the cotton debt problem, and are proceeding with its implementation. All farm debt accumulated as of January 1, 2008, and all interest accrued on that stock since that time has been written off. Certificates legally discharging farmers from debt obligations to investors were distributed. As part of the action plan we encouraged all banks to apply the Tajikistan Agricultural Financing Facility methodology, developed by the European Bank for Reconstruction and Development, for the government financing scheme for the agriculture sector in 2010. In light of fiscal constraints, budgetary resources available for lending to the agriculture sector will be limited to resources that are paid back in 2011, and over the medium-term we will be looking to phase out budgetary support in this area. A precondition for having a private-sector led financing mechanism will be the ability to use land-use rights as collateral. We are working closely with the World Bank, Asian Development Bank, and other donors on the implementation of the action plan. We are also seeking donor financing for the agriculture sector to ensure that farmers have sufficient access to credit under the new mechanisms being developed. We hope our recent proposal for financing under Global Agriculture and Food Security Fund (GAFSP) will receive favorable support from the donor community.

### **Data**

25. We plan to strengthen our national accounts and price statistics, with technical assistance from the regional IMF statistics advisor, who will coordinate closely with the STATCAP project led by the World Bank.

26. We will also continue to strengthen our debt data management framework, including by completing an inventory of government domestic debt and domestic and external debt of SOEs. This information will be published, together with a report on government and government-guaranteed external debt, in the 2011 budget documents. In addition, the NBT continues to strengthen the monitoring system of private external debt, and began publishing these data on the NBT website on a semi-annual basis starting as of June 2010—sharing this data on a quarterly basis with the ministry of finance.

#### **IV. PROGRAM MONITORING**

27. We will continue to monitor progress in implementing the program through quantitative performance criteria and indicative targets, as well as prior actions, and structural benchmarks set for 2010 and 2011. These are listed in the tables attached to the letter of intent. The technical memorandum of understanding which is also attached to this letter defines the quantitative targets of the program and their adjustors, and specifies reporting requirements. Completion of the fourth review under the ECF arrangement—which is envisaged for March 15, 2011—will require observance of the quantitative performance criteria for end-December 2010 and other relevant performance criteria, completion of the fifth review—which is envisaged for September 15, 2011— will require observance of the quantitative performance criteria for end-June 2011 and other relevant performance criteria, and completion of the sixth review—which is envisaged for March 16, 2012— will require observance of the quantitative performance criteria for end-December 2011 and other relevant performance criteria.



**Table 1: NBT Reform Action Plan**

<b>Reform</b>	<b>Timing</b>	<b>Status</b>
<i>GOVERNANCE</i>		
Close down the Cotton Debt Department at the NBT.	June 2009	Done
Appoint the NBT Board for a fixed term with 3 non-executive members.	June 2010	Done
Establish NBT Board Committees, such as an audit committee, chaired by a non-executive member of the NBT Board.	June 2010	Done
Create and publish on the NBT's website a register of commercial interests of NBT Board members and top management	June 2010	Done
Develop proposals to restructure the NBT' organizational set up	December 2010	
A draft revised central bank law substantially compliant with the recommendations of Fund staff should be approved by the President of the Republic and submitted to Parliament for enactment.	December 2010	
<i>AUDITING</i>		
External audits of financial accounts for FY ending April 2009 and for the 8 months ending December 31, 2009 to be completed.	September 2010	Completed
Continue semi-annual NIR reviews by an international audit firm at test dates under the ECF arrangement. Such reviews should be completed before the IMF Board meeting and the TOR for the reviews should be adapted as needed to ensure that (i) the auditor attends vault counts on the relevant test date; (ii) emerging issues are addressed; and (iii) previous recommendations are being addressed.	Prior action for the Board meeting	KPMG completed end-June NIR review in July.
Publish on its external website in a dedicated section the financial statements and audit opinion within 1 month from completion of the audit, also including all past audit reports.	Continuous	Completed

Reform	Timing	Status
Develop an internal regulation to define a formal policy for the selection and appointment of its external auditor. The policy should stipulate: (i) the composition of the selection committee, including participation by non-executive Board members; (ii) criteria for making the selection; (iii) a timeline for the tendering, bidding and appointment, ensuring the contracting of the external audit not later than 3 months before the year-end; and (iv) multi-year audit contracts.	September 2010	Done
Outsource—through a formal tendering process—to an external consulting firm the internal audit of the activities of (i) the international relations department, including foreign exchange lending and liquidity support; (ii) the domestic lending and liquidity support activities; and (iii) the management of foreign currency vault operations at headquarters. Ensure that external consultant contributes to capacity building in the Internal Audit Department.	April 2010	Done; an external consultant “International Auditing Company, Ltd.” was selected.
Plan and organize an external quality assurance review of the NBT’s Internal Audit Department by certified experts on its compliance with Institute of Internal Auditors (IIA) standards.	June 2011	
<i>ACCOUNTING AND OPERATIONS</i>		
Create a new base of the NBT balance sheets and continuously monitor their conformity with analytical data	June 2009	Recommendations of special audit of the NBT and end-December 2008 NIR audit incorporated. Revised balance sheet presented as part of regular annual audit.
Keep full records of adjustments made with regard to audited financial reports, and keep full records to confirm the data that the IMF publishes in its reports	Continuously	
Increase the number of sudden checks of cash available in the NBT’s head office and regional branches.	Continuously	
Develop a mechanism to transfer and share information	Continuously	

<b>Reform</b>	<b>Timing</b>	<b>Status</b>
between departments on any reclassification of items in the NBT's accounting balance sheet for the purpose of compiling the monetary analysis.		
Establish a register of the gold bars held in the NBT vaults, including gold owned by the ministry of finance. This register must include details on the serial number of the gold bars and the ownership. This register must be included in the scope of the NIR review, starting with the end-December 2009 test date.	March 2010	Registry of gold was completed in August 2010.
Take measures to create a centralized accounting system of the NBT by transferring all accounting functions to relevant departments and introduce software for centralized recording of transactions done by the NBT's regional branches.	June 2010	Requesting technical assistance
Include the issue of accounting and monitoring of the NBT balance sheet items in daily meetings of the working group. Include representatives of the internal audit and accounting into the working group		
Strengthen cash management by setting up basic structures which assure the segregation of duties between the front-office, back-office and accounting functions in order to mitigate operational risks.		

## ATTACHMENT III. TAJIKISTAN: TECHNICAL MEMORANDUM OF UNDERSTANDING

November 9, 2010

### I. INTRODUCTION

1. This memorandum defines the quantitative performance criteria and the indicative targets and relative adjusters, and establishes the content and frequency of the data to be provided to IMF staff for the program monitoring relating to the program supported by an arrangement under the Extended Credit Facility (ECF)—which replaced the existing three-year Poverty Reduction and Growth Facility (PRGF) arrangement following the entry into force of the Executive Board’s decision of July 2009—under the request in the authorities’ Letter of Intent dated November 9, 2010.

### II. QUANTITATIVE PERFORMANCE CRITERIA

#### A. Definitions and Concepts

2. **Test dates.** Quantitative performance criteria are set semi-annually starting December 31, 2010 through December 31, 2011, and are to be met at the end of each period unless otherwise specified.

3. **National Bank of Tajikistan (NBT).** The NBT is the central bank of the country responsible for the formulation and implementation of monetary policy. For the purpose of the program, NBT includes all its central and regional offices.

4. **General government.** For the purpose of the program, “general government” includes the republican government, local (including municipal) governments, and the agencies included in the administrative classification of the budget. It excludes all other agencies not specifically listed, including but not limited to Barki Tajik and Talco.

5. **Foreign-financed PIP and related grants.** The foreign financed PIP is a program of investments in infrastructure and social sectors agreed by the general government of Tajikistan and its donors (including but not limited to international financial organizations). The program is fully financed by related grants and loans, and does not involve any additional financing commitment from the general government of Tajikistan. Related grants are grants provided by the donors financing the PIP for financing of projects included in the PIP.

6. **Domestic arrears** are defined as the general government expenditure that have not been paid after coming due as determined in the State Budget of the Republic of Tajikistan and other government documents regulating the execution of the Budget for ten business days.

7. **External arrears** are defined as overdue payments (principal or interest) on external debt contracted, guaranteed, or converted into interstate debt by the general government of Tajikistan or the NBT.
8. **Concessional and nonconcessional debt.** Concessional debt is defined as debt with a grant element equivalent of 35 percent or more. The grant element of a debt is calculated using the commercial interest reference rates (CIRRs) plus a margin at the time of its contracting. For debts of an original maturity of 15 years or more, the average CIRR over the last 10 years will be used, while the average of CIRRs of the preceding six-month period will be used to assess the concessionality of debts with original maturities of less than 15 years. To the 10-year and 6-month averages of CIRRs, the following margins will be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–29 years; and 1.25 percent for 30 and more years. In general, the grant element is calculated as value of the loan minus present discounted value of future payments over the loan value (multiplied by 100). Present discounted value is sum of all future discounted payments (both amortization and interest), where the discount rate corresponds to the CIRR mentioned above. Nonconcessional debt is defined as debt without a grant element or with a grant element of less than 35 percent. The debt refers also to commitments contracted or guaranteed and for which value has not been received. The calculation is performed by the authorities and verified by the IMF based on the data provided by the authorities.
9. **Valuation changes (program exchange rates).** For program monitoring, U.S. dollar-denominated components of the general government's and the NBT's balance sheets will be valued at the program exchange rate (SM4.371= US\$1.00; official exchange rate as of December 31, 2009). Other foreign currency denominated items will be valued at the respective cross rates between the program exchange rate of the U.S. dollar and current official exchange rates of the U.S. dollar against those currencies as of December 31, 2009. The SDR components will be valued at the program SDR exchange rate SDR = \$1.56769 (December 31, 2009). Official gold holdings shall be valued at \$1,104 per troy ounce (December 31, 2009).

## **B. Quantitative Performance Criteria and Indicative Targets**

### **Quantitative Performance Criterion 1: Ceiling on a cumulative flow of net domestic assets of the NBT for the year.**

10. **Definition.** For the purpose of the program, net domestic assets (NDA) of the NBT are defined as reserve money at program exchange rates minus net foreign assets at program exchange rates of the NBT. The cumulative flow of NDA for the year is defined as a difference between end-of-period balances for a period under evaluation and the preceding end-of-the year balance, unless otherwise specified. Reserve money (RM) at program exchange rates is composed of currency in circulation (CC), required reserves (RR), other

bank reserves (OBR), and deposits of nongovernmental nonbanks with the NBT (DNGNB). The value of the net foreign assets at program exchange rates of the NBT is calculated as the difference between NBT's claims on nonresidents and its liabilities to nonresidents. The NBT's NDA comprise the following assets and liabilities: net credit to the general government, net claims on banks, credit to the economy, and other items net (OIN). OIN includes the foreign exchange revaluation and capital accounts of the NBT.

11. **Adjustor for changes in reserve requirement ratio.** The ceiling on a cumulative flow of NDA of the NBT for the year will be adjusted upwards (downward) when the required reserve rates (rr) on deposits in local and/or foreign currency (DB) are increased (decreased), resulting in a corresponding increase (decrease) of reserve money (RM).

NDA before RR change:  $NDA = RM - NFA$

$RM = CC + RR + OBR + DNGNB$  where:

$RR = rr * DB$

DB – deposit base

rr – required reserve rate

Define:  $drr$  – change of required reserve rate.

DB – deposit base used for calculation of required reserves

$drr * DB$  – amount of upward (if  $drr > 0$ ) or downward (if  $drr < 0$ ) adjustment in RM

NDA after RR change  $NDA = RM (+/-) drr * DB - NFA$ .

12. **Adjustor for ministry of finance gold holdings.** The cumulative NDA flow is adjusted downward (upward) for any deposit (withdrawal of deposit) of ministry of finance's gold holdings with the NBT during the program period.

**Quantitative Performance Criterion 2: Floor on a cumulative flow for the year of total net international reserves (in millions of U.S. dollars).**

13. **Definition.** Total net international reserves of the NBT are defined as the difference between total gross international reserves of the NBT and total reserve liabilities of the NBT. Total gross international reserves of the NBT are defined to include NBT's holdings of monetary gold (defined as gold of London good delivery quality), including monetary gold owned by the Ministry of Finance, SDRs, convertible currencies in cash or in nonresident financial institutions that are readily available and any reserve position at the IMF. Also included are holdings of foreign currency-denominated securities issued by governments or central banks of OECD member states. Excluded are changes in the level of gross foreign

reserves that arise from capital subscriptions in foreign financial institutions, non-liquid assets of the NBT, convertible currency denominated claims on domestic banks and other residents, assets in nonconvertible currencies, foreign assets pledged as collateral or otherwise encumbered and the net forward position, if any (defined as the difference between the face value of foreign currency denominated NBT off balance sheet claims on nonresidents and foreign currency obligations to both residents and nonresidents). Reserve liabilities of the NBT are defined as liabilities outstanding to the IMF and liabilities of the NBT to nonresidents with an original maturity of up to and including one year. A cumulative flow for the year of total net international reserves (in millions of U.S. dollars) is defined as a difference between the end-of-period balances for the period under evaluation and the preceding end-of-the year balance, unless otherwise specified.

14. **Adjustor for conversion of non-monetary gold into monetary gold.** The cumulative NIR flow will be adjusted upward by the amount of nonmonetary gold held by the NBT that is converted to monetary gold, and the amount of nonmonetary gold held by the MOF that is converted to monetary gold and transferred to the reserve holdings of the NBT.

**Quantitative Performance Criterion 3: Zero ceiling on new lending and guarantees from the NBT to private sector (continuous quantitative performance criterion).**

15. **Definition.** New lending from the NBT to the private sector is defined as loans extended by the NBT to domestic commercial banks, credit unions, credit associations, and microfinance organizations with a maturity of more than three months, and loans extended by the NBT to other domestic nonbank financial institutions or any other domestic entity other than the general government. Short-term liquidity loans to domestic commercial banks, credit unions, credit associations, and microfinance organizations with a maturity of up to three months are not included under this definition. Guarantees are defined as any guarantee extended by the NBT of principal or debt service payment for debt issued or contracted by private sector entities.

**Quantitative Performance Criterion 4: Floor on the cumulative overall fiscal balance of the general government excluding foreign-financed PIP and related grants.**

16. **Definition.** The overall fiscal balance of the general government is defined from below the line on a cash basis as the negative sum of:

- a. *change in net claims on the general government of the NBT:* net claims on the general government of the NBT is defined as the net position of NBT loans and advances to the general government, NBT holdings of government securities (excluding treasury bills issued as part of the NBT recapitalization process), bank restructuring costs, and all deposits of the general government with the NBT (excluding the ministry of finance's gold holdings), counterpart deposits (which reflect balance of payments and/or general budget support from international financial institutions and other donors), and the

privatization account (where proceeds from the privatization of state property are held);

- b. *the change in net claims on the general government of the rest of the domestic banking system*: net claims on the general government of the rest of the domestic banking system are defined to include the net position of the general government with respect to other domestic commercial bank assets (loans, overdrafts, cash advances, holdings of treasury bills or other securities) and liabilities (deposits, etc.). Treasury bills issued to commercial banks as part of the cotton debt resolution are excluded;
- c. *the change in net claims on the general government of domestic nonbank institutions and households*: net claims on the general government of domestic nonbank institutions and households are defined as treasury bills, bonds or other government securities held by nonbank institutions and households (including nonresidents and nonresident financial institutions), plus any other liabilities of the general government to domestic nonbank institutions or households;
- d. *the change in net foreign liabilities of the general government*: net foreign liabilities of the general government are defined as government debt to foreign sovereigns, and foreign financial and nonfinancial institutions. For this purpose, net foreign liabilities exclude liabilities that arose in the context of the externally financed PIP;
- e. *gross proceeds from the privatization of state property*: gross proceeds from the privatization of state property are defined as all receipts originating from the sale of the general government property; and
- f. *the change in gross arrears of the general government*: gross arrears refer to domestic or external arrears.

All changes will be calculated as the difference between end-of-period stocks, net of any valuation changes resulting from currency movements.

**Quantitative Performance Criterion 5: Ceiling on general government wage and pension arrears (continuous quantitative performance criterion).**

17. **Definition.** Arrears on general government and pensioners' pensions are defined as any shortfall in monthly disbursements of wages and pensions. These payments are defined as overdue if they have come due at the end of the month and remain unpaid for ten business days thereafter. To allow monitoring of the above defined arrears the government will provide data on actual wage payments, including a breakdown by local governments, as part of the monthly budget execution statements submitted to the IMF staff. The Agency on



Social Protection and Pensions will provide quarterly reports and statements of their operations.

**Quantitative Performance Criterion 6: Ceiling on contracting or guaranteeing of any nonconcessional external debt (continuous quantitative performance criterion).**

18. **Definition.** The definition of debt, for the purposes of the program, is set out in Executive Board Decision No. 12274, Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91); see below) and also includes commitments contracted or guaranteed and for which value has not been received. The debt limits apply to short-, medium-, and long-term debt contracted by the general government of Tajikistan, the National Bank of Tajikistan, and any other agency acting on behalf of the government, including but not limited to state-owned banks and state-owned enterprises that can issue external debt without a government guarantee.

19. **The definition of debt set forth in point No. 9 of the guidelines as revised on August 31, 2009 reads as follows:** “(a) For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property. (b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.”

20. **External debt limits** apply to the contracting or guaranteeing of new nonconcessional short-term external debt (with an original maturity of up to and including one year), and to the contracting or guaranteeing of new nonconcessional medium- and long-term external debt (with original maturities of more than one year).

21. **Exclusions from the external debt limits.** Loans contracted for debt rescheduling or refinancing if the terms of the new loan are more favorable will be excluded from the debt limits. IMF credit is excluded from the external debt limits. The rollover of the existing guarantees will be excluded from the debt limits. If pledged reserves of the NBT were to be securitized, these amounts will also be excluded from the debt limits. The performance criterion on new nonconcessional short-term external debt will not apply to loans classified as international reserve liabilities of the NBT (liabilities of the NBT to nonresidents with an original maturity of up to and including one year). Normal import-related financing is excluded from the criterion.

22. **Valuation of debt denominated in currencies other than the U.S. dollar.** Debts falling within the external debt limits that are denominated in currencies other than the U.S. dollar shall be valued in U.S. dollars at the exchange rate prevailing at the time the contracting or guaranteeing takes place or at the exchange rate stipulated in the contract.

23. **Guarantee of a debt.** For the purposes of the program, the guarantee of a debt arises from any explicit legal obligation of the general government or the NBT or any other agency acting on behalf of the general government to service such a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or indirectly through any other obligation of the general government or the NBT or any other agency acting on behalf of the general government to finance a shortfall incurred by the debtors.

**Quantitative Performance Criterion 7: Ceiling on disbursements of concessional external financing.**

24. **Definition:** Disbursements of concessional external financing are defined as disbursements of debt with a grant element equivalent of 35 percent or more.

**Quantitative Performance Criterion 8: New external payments arrears (continuous quantitative performance criterion).**

25. **Definition.** External payments arrears are defined as overdue payments (principal or interest) on external debt contracted, guaranteed, or converted into interstate debt by the general government of Tajikistan or the NBT.

**Indicative Target 1: Floor on tax collections.**

26. **Definition.** Tax collections are defined to include all taxes (and custom revenues) collected under the general government budget. Regarding internal taxation, the definition

excludes any proceeds from loans, or other banking system credits, the issuance of securities, or from the sale of state assets. Custom revenues are defined to include customs duties and other taxes (including VAT) on international trade and transactions.

**Indicative Target 2: Floor on social- and poverty-related expenditure.**

27. **Definition.** Social- and poverty-related expenditure is defined as the sum of current and capital expenditures in the education, health, and social protection sectors as shown in the functional classification of the budget.

**Indicative Target 3: Ceiling on gross equity sales and contributions for Roghun.**

28. **Definitions.** “Gross equity sales” are defined as all sales of equity in the Roghun OJSC. “Contributions” are defined as all other transfers to Roghun OJSC, the government, or any other public entity for the construction of Roghun, *with the exception* of direct budget transfers. For purposes of the quarterly indicative target, gross equity sales and contributions will be measured as the difference between the end-of-period balance for the period under evaluation and the preceding end-of-the year balance in all accounts of Roghun OJSC with commercial banks and the NBT, and balances held by the government with commercial banks or the NBT on account of Roghun OJSC, plus the cumulative withdrawals from these accounts for expenditure purposes.

**Indicative Target 4: Ceiling on the stock of NBT liquidity loans.**

29. **Definition.** NBT liquidity loans are defined as short-term liquidity loans by the NBT to domestic commercial banks, credit unions, credit associations, and microfinance organizations with a maturity of up to three months.

**III. REPORTING REQUIREMENTS UNDER THE PROGRAM**

30. For program monitoring, the following data should be reported to the Middle East and Central Asia Department of the International Monetary Fund via the IMF Resident Representative’s office in Dushanbe.

**Table 1. Data reporting frequency for program monitoring**

Data	Frequency	Lag
1. NBT analytical balance sheet	Weekly	3 working days
2. NBT balance sheet	Weekly	3 working days
3. Commercial banks' and Kredit Invest balance sheets	Monthly	4 weeks
4. Auction results for NBT certificates and treasury bills	Weekly	1 week
5. Fiscal revenues, expenditures and financing of budget execution, and extrabudgetary funds	Monthly	4 weeks
6. Reports and statements from the Agency on Social Protection and Pensions	Quarterly	6 weeks
7. Arrears of budget entities and state-owned enterprises	Quarterly	4 weeks
8. Wage and pension arrears by all levels of governments	Monthly	4 weeks
9. Stocks, disbursements, guarantees, new contracts of external debt including terms and disbursement profile, including non-guaranteed external debt of state-owned enterprises	Quarterly	4 weeks
10. External arrears arising in respect of obligations incurred directly, guaranteed, or converted into interstate debt by the general government of Tajikistan or the NBT, including penalties or interest charges	Monthly	4 weeks
11. Liquidity loans and loans stemming from fulfillment of the lender-of-last-resort function extended by the NBT to the economic agents in Tajikistan (financial sector, nonfinancial sector, enterprises, individuals, and any other) specifying date of issue, amount of original loan, interest, term, schedule of repayment, currency, and any grace period	Weekly	1 week
12. Net and gross international reserves, including ministry of finance gold holdings, daily sales and purchases of foreign currency, and daily sales and purchases of foreign currency executed with an intention of influencing the exchange rate of somoni	Daily	1 working day
13. Foreign exchange spending of Roghun OJSC, total expenditures of Roghun OJSC, government transfers to Roghun OJSC, equity subscriptions by the public to Roghun OJSC, any other receipt of Roghun OJSC. Balances in all accounts of Roghun OJSC with commercial banks and the NBT and balances held by the government with commercial banks or the NBT on account of Roghun OJSC. Cumulative number of shares sold by denomination.	Monthly	4 weeks

## INTERNATIONAL MONETARY FUND

## REPUBLIC OF TAJIKISTAN

**Third Review Under the Three-Year Arrangement  
Under the Extended Credit Facility, Request for Waiver of  
Nonobservance of a Performance Criterion and Request for Modification  
of a Performance Criterion– Informational Annex**

November 9, 2010

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**ANNEX I. TAJIKISTAN: RELATIONS WITH THE FUND**  
(As of September 30, 2010)

**I. Membership Status:** Joined April 27, 1993; Article VIII

**II. General Resources Account:**

	<u>SDR million</u>	<u>% Quota</u>
Quota	87.00	100.00
Fund holdings of currency	87.00	100.00
Reserve position in Fund	0.00	0.00

**III. SDR Department**

	<u>SDR million</u>	<u>% Allocation</u>
Net cumulative allocation	82.08	100
Holdings	69.83	85.07

**IV. Outstanding Purchases and Loans**

	<u>SDR million</u>	<u>% Quota</u>
ECF Arrangements	52.22	60.02

**V. Latest Financial Arrangements**

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
ECF <sup>12</sup>	Apr 21, 2009	Apr 20, 2012	104.40	52.22
ECF	Dec 11, 2002	Feb 10, 2006	65.00	65.00
ECF	Jun 24, 1998	Dec 24, 2001	100.30	78.28

**VI. Projected Payments to Fund<sup>13</sup>**

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2010	2011	2012	2013	2014
Principal					<u>2.61</u>
Charges/Interest	<u>0.01</u>	<u>0.04</u>	<u>0.17</u>	<u>0.17</u>	<u>0.17</u>
<b>Total</b>	<u>0.01</u>	<u>0.04</u>	<u>0.17</u>	<u>0.17</u>	<u>2.78</u>

**VII. Implementation of HIPC Initiative** Not Applicable.

<sup>12</sup> Formerly PRGF.

<sup>13</sup> When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

### VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million) <sup>14</sup>	69.31
Financed by: MDRI Trust	69.31
Remaining HIPC resources	--

#### II. Debt Relief by Facility (SDR Million)

<u>Delivery Date</u>	<u>Eligible Debt</u>		
	<u>GRA</u>	<u>PRGT</u>	<u>Total</u>
January 2006	N/A	69.31	69.31

### IX. Safeguards Assessment

An update safeguards assessment of the NBT (conducted in December 2009) noted that initial steps have been taken to address the risks identified by the special audit on cotton sector financing. However, considerable safeguards risks at the NBT remain. Both the accounting and the organizational structures are still fragmented, with no oversight over external and internal audits. Internal audit is weak and needs to increase coverage of core functions.

To address these issues, the NBT has implemented a number of initial steps: audited financial statements for end-April 2009 and end-December 2009 were published on the NBT website; an external auditor was reappointed for a multi year term starting from FY 2010; NIR reviews at test dates are being conducted every six months; and the internal audit of core functions was recently outsourced.

### X. Exchange Rate Arrangements

Since June 2009, the exchange rate regime is classified as stabilized. The official exchange rate is based on all interbank transactions in foreign exchange. It is calculated and announced daily.

With effect from December 9, 2004, the Republic of Tajikistan accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement. The Republic of Tajikistan maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions, except for exchange restrictions maintained

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<sup>14</sup> The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

for security reasons that have been notified to the Fund pursuant to Executive Board decision No. 144-(52/51).

### **XI. FSAP Participation**

Tajikistan participated in the Financial Sector Assessment Program during 2007-08, and the FSSA report has been published at <http://www.imf.org/external/country/TJK/index.htm>.

### **XII. Article IV Consultation**

The 2009 Article IV consultation was completed on Apr 21, 2009.

### **XIII. Resident Representative**

Mr. Aisen, Resident Representative of the Fund, started his assignment in Dushanbe in July 2010.

### **XIV. Technical Assistance**

The following list summarizes the technical assistance provided by the Fund to Tajikistan since 2004.

#### **Fiscal Affairs:**

July 2004	Revenue Administration Reform
December 2004	Poverty and Social Impact Analysis
June 2005	Public Financial Management
August 2005	Tax Policy and Administration
August 2006	Fiscal ROSC
May 2007	Public Financial Management (Budget Classification)
February/July 2010	Tax Policy and Administration
June 2010	Public Financial Management Reforms
Ongoing	Public Financial Management (Regional Advisor)

#### **Monetary and Financial Systems:**

May 2006	Strengthening the Monetary Policy Framework and Liquidity Management
October/December 2009 and September 2010	NBT Recapitalization Strategy



**Statistics:**

April 2004	Data ROSC
October 2004	General Data Dissemination System (GDDS)
June 2006	Report on Monetary and Financial Statistics
Ongoing	National accounts and price statistics (Regional Advisor)

**Finance:****Legal:**

January 2004	Tax Legislation
May 2004	Tax Legislation
2006	AML/CFT
October 2010	NBT Law

**ANNEX II. TAJIKISTAN: RELATIONS WITH THE WORLD BANK GROUP**  
(As of September 30, 2010)

1. The Fund's mission met with the World Bank's team during the IMF's September 2010 mission in Dushanbe, to identify macro critical structural reforms and coordinate the two teams' work for the period September 2010–September 2011. Subsequent interaction in Dushanbe and Washington with staff of both institutions led to finalization of this memorandum.
2. Tajikistan was hard hit by the international financial crisis, mainly through the remittances channel. An incipient economic recovery—aided in part by a rebound in remittances—appears to be taking shape in 2010, and should continue into 2011 barring new shocks. The teams agreed that, apart from the need to maintain strong growth and achieve lasting poverty reduction, Tajikistan's main macroeconomic challenges are: (i) to meet—within the context of fiscal and debt sustainability—the country's pressing spending needs—including for the recapitalization of the central bank—while maintaining public debt at or below the authorities' 40 percent of GDP ceiling; (ii) to further strengthen central bank governance and enhance the effectiveness of monetary policy; (iii) to develop the financial sector and provide for an effective intermediation of savings and investment.
3. Based on this shared assessment, the teams identified six structural reform areas as macro critical, and agreed on the division of labor in these areas:
  - **Central bank governance and operations:** Due to past directed credits, the central bank has large negative capital. Despite recent governance improvements, checks and balances need to be strengthened further, and the central bank needs to be recapitalized, eliminating crucial constraints to the effectiveness of monetary policy. Key reform areas include: central bank law, internal and external audit processes, budgeting, and monetary instruments. The Fund takes the lead.
  - **Agricultural sector reform:** The sector employs 70 percent of the population (mainly low income households), but suffers from excessive government intervention that holds back its growth potential. Key reform areas include: agriculture financing, land reform and property rights, building infrastructure for noncotton agriculture products. The Bank and other donors take the lead.
  - **Energy sector reform:** The sector fails to provide reliable electricity supply to the country, while running large deficits that are financed through underinvestment in capital and maintenance, as well as tax and inter-enterprise arrears. Key reform areas include: increasing production capacity, improving transmission and distribution infrastructure, and rationalizing the tariff structure and bringing the average tariff to cost recovery. A reform priority is to strengthen the power utilities' financial controls and reporting system. The Bank takes the lead, and is working on a comprehensive energy strategy, which will try to incorporate all interactions between the relevant

SOEs and Ministries. The Bank will also follow up to the 2007 financial audit of Barki Tajik.

- ***Investment Climate Reform:*** Tajikistan's corporate sector is held back by a business environment that is not conducive to private sector investment and growth. Key reform areas include: reducing risk and uncertainty for the entrepreneur, removing barriers to entry, reducing the cost of doing business, and supporting the private sector to increase productivity and human capacity to drive growth. The Bank leads, on the basis of its latest survey-based investment climate assessment. The tax system may also feature, and the Fund will take the lead in this area, in cooperation with any sector-specific work (such as agricultural taxation) undertaken by donors.
  - ***Public financial management reform:*** Despite recent reforms, budgeting and financing procedures can still be significantly improved, with potentially large benefits for fiscal policy. Key reform areas include: implementation of the Treasury Single Account, closer monitoring of fiscal aspects of large state-owned enterprises (SOEs), social services and safety net reform. The Fund's FAD regional TA advisor works on budget classification issues and SOE monitoring, aiming to reduce quasi-fiscal activities and increase transparency. The Bank leads the switch to per capita based financing in education and health sectors, and will also continue to support public financial external and internal control reform. It will also work on a social spending strategy, and thus assist the implementation of the Fund's ECF benchmark on increasing social spending.
  - ***Financial sector reform:*** Tajikistan's financial sector is underdeveloped. Only a small amount of savings is channeled through the banking system, and private sector credit extension is insufficient to facilitate strong, sustained, private-sector-led economic growth. Key reform areas include interbank market, strengthening regulations and supervision, deposit insurance law, and securities market. A Financial Sector Assessment Program (the country's first), carried out jointly by the Bank and the Fund, was discussed with the authorities in late 2007. The Bank is supporting implementation of the assessment's recommendations, working on the commercial banking law, deposit insurance law, AML/CFT law, and an overall financial sector strategy. The Fund leads on Central Bank reform, as well as securities market development, via its MCM regional TA advisor.
4. The teams have the following requests for information from their counterparts:
- The Fund team requests to be kept informed of progress in the above macro critical structural reform areas. Timing: when milestones are reached (and at least semiannually).
  - The Bank team requests to be kept informed of the Fund's assessments of macroeconomic policies and prospects. Timing: in the context of Art. IV and other missions (and at least semi-annually).

5. The appendix lists the teams' separate and joint work programs during September 2010–August 2011.

**Table 1: JMAP Implementation, September 2010–September 2011**

Title	Products and brief description (pillars)	Provisional Timing of Missions	Expected date of Delivery
<b>A. Mutual information on relevant work programs</b>			
<b>Bank Work Program in next 12 months</b>	<p><b><u>PDPG 5</u></b></p> <ul style="list-style-type: none"> <li>• Protecting delivery of basic services within a sustainable fiscal framework</li> <li>• Improving the environment for private sector development and growth</li> <li>• Strengthening government effectiveness</li> </ul>	<p>Identification/Pre-appraisal November 2010</p> <p>Appraisal March 2010</p>	<p>Board June 2011</p> <p>Disbursement: July 2011</p>
	Private Sector Development Dialogue	PSD TA support (Doing Business) November 2010 June 2011	
	Rural Investment Climate Study (with DFID TF)	Field work starts Oct. 2010	
	<p>Agriculture</p> <p>Expand farmland restructuring to enable more rural people to become independent farms</p> <p>Build productive assets of rural communities in selected mountain watersheds.</p> <p>Increase domestic food production and reduce the loss of livestock to help at least 55,000 poorest households;</p>	<p>Supervision of Land Registration and Cadastral System Project Sept. 15–Oct. 5 2010 April 2011</p> <p>Supervision of Community Agriculture and Watershed Management Project Sept. 15–Oct. 5 2010 April 2011</p> <p>Supervision of Emergency Food Security and Seed Imports Project (with Russian trust Fund) October 20–November 1, 2010</p>	<p>Project closing March 2012</p> <p>Project closing April 2011</p> <p>Project closing March 2013</p>

	Improve the livelihood of cotton farmers and create the conditions for sustainable growth of cotton production	Supervision of Cotton Sector Recovery Project October 20–November 12, 2009	Project closing March 2013
	Energy—emergency operation to provide electricity during the cold period from alternative (commercial) sources  Conducting assessment studies for the Roghun HPP project	Supervision of Energy Loss Reduction Project (with additional financing for emergency operation) Sept. 20–Sept. 26, 2010  Contract award–Oct. 2010 and December 2010	
	Social safety nets	Social assistance and preparation of options for targeting. Appraisal–October 2010	May 2011
	Health  Supporting improving equitable allocation of resources and efficiency in health sector provision through	Supervision mission in Oct 2010 for Community and Basic Health Project	Closing Dec 31, 2010
	Education	Fast Track Initiative–3rd grant, starting April 2010 Supervision–October 2010 and March 2011  Education Modernisation (incl. Additional Financing) Supervision–October 2010 and March 2011	

	Financial Sector	<p>August 2010: FIRST TA consultant mission on bank insolvency law and secured transactions reform (law and registry)</p> <p>Sept. 2010: WB FSD mission to prepare FIRST TA to strengthen banking regulation and onsite supervision, prepare FIRST TA to assist in preparing payment system strategy and procurement of card payment system, prepare FIRST TA on secured transactions reform</p> <p>Oct 11, 2010: WB FSD mission to prepare FIRST TA on insurance sector reforms</p> <p>Oct 18, 2010: WB FSD mission (Claire McGuire) to assist NBT on contingency planning for problem banks</p>	<p>Other expected missions:</p> <p>Feb 2011: WB missions to initiate FIRST TAs</p> <p>May 2011: WB missions to monitor FIRST TAs and implementation of government-approved FSD action plan</p>
<b>Fund work program in next 12 months</b>	<ul style="list-style-type: none"> <li>- Third ECF review staff report</li> <li>- TA report on NBT recapitalization</li> <li>- NBT Law reform TA project</li> <li>- The 2011 Article IV Consultation and 4<sup>th</sup>ECF review</li> <li>- Fifth ECF review staff report</li> </ul>	<ul style="list-style-type: none"> <li>- September 2010: Third ECF review mission</li> <li>- September 2010 mission (MCM)</li> <li>- October 2010</li> <li>- February/March 2011: Article IV report and 4<sup>th</sup> ECF review mission</li> <li>- September 2011: Fifth ECF review mission</li> </ul>	<ul style="list-style-type: none"> <li>- November 2010: Third ECF review board meeting</li> <li>October 2010</li> <li>- TA report by Nov. 2010; revised NBT law to parliament by Dec. 2010</li> <li>- April/May 2011: 2011 Article IV and 4th ECF review board meeting</li> <li>- November 2011: ECF Fifth review Board meeting.</li> </ul>
<b>Fund request to Bank</b>	<ul style="list-style-type: none"> <li>- Follow-up on Barki Tajik audit</li> <li>- Electricity tariff increases</li> </ul>		

	<ul style="list-style-type: none"> <li>- Roghun feasibility study</li> <li>- Cotton/agriculture sector reforms</li> <li>- Any STATCAP work on NA and inflation statistics</li> <li>- PFM work</li> <li>- Social spending</li> <li>- Financial sector work</li> <li>- Work by DFID-financed macroeconomic advisor</li> </ul>		
<b>Bank request to Fund</b>	<ul style="list-style-type: none"> <li>-Provide BOP/fiscal data for updating macro data base annual meetings</li> <li>-Assessment Letter for PDPG 4</li> </ul>	<p>October 2010 March 2011 May 2011 (tentative)</p>	
<b>B. Agreement on joint products and missions (as needed)</b>			
<b>Joint products in next 12 months</b>	<p>DSA Feb/March 2011</p>	<p>Feb/March 2011 Article IV consultation &amp; Fourth ECF review mission</p>	<p>April/May 2011 Article IV consultation and Fourth ECF review board meeting</p>



## INTERNATIONAL MONETARY FUND

## REPUBLIC OF TAJIKISTAN

**Third Review Under the Three-Year Arrangement  
Under the Extended Credit Facility, Request for Waiver of  
Nonobservance of a Performance Criterion and Request for Modification  
of a Performance Criterion—Supplementary Information**

Prepared by the Middle East and Central Asia Department

Approved by David Owen and Dhaneshwar Ghura

November 16, 2010

With respect to *Republic of Tajikistan—Third Review Under the Three-Year Arrangement Under the Extended Credit Facility, Request for Waiver of Nonobservance of a Performance Criterion and Request for a Modification of a Performance Criterion* (EBS/10/206), two prior actions had to be met before consideration of the review, namely (i) issuance of a tender for an external audit of Talco management and (ii) issuance by of a report by the Roghun supervisory board to the public about current operations and the sources and uses of funds. The first prior action was met on November 10, 2010, and the second prior action on November 12, 2010. Based on this, Tajikistan has met the two prior actions for the Executive Board to consider the third program review under the ECF arrangement.



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FOR IMMEDIATE RELEASE  
November 30, 2010

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Executive Board Completes Third Review Under ECF Arrangement for Tajikistan and Approves US\$20 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) has completed its third review of Tajikistan's economic performance under a program supported by the Extended Credit Facility arrangement (ECF)<sup>15</sup>. The Board's decision was taken on a lapse of time basis<sup>16</sup>. The decision enables the authorities to draw an additional SDR 13.045 million (US\$20.11 million), bringing total disbursements under the arrangement to an amount equivalent to SDR 65.265 million (US\$100.59 million).

The three-year SDR 104.4 million (about US\$160.91 million) Extended Credit Facility arrangement with Tajikistan was originally approved by the IMF's Executive Board on April 21, 2009 and subsequently augmented on June 7, 2010 (see Press Releases No. 09/136 and No. 10/230).

Tajikistan has joined many other Central Asian countries on the path to economic recovery. An improving external environment, an upswing in inward remittances, and favorable climatic conditions (leading to an increase in hydroelectricity production) helped Tajikistan recover from the slowdown of 2009. Inflation has been low for most of the year, and although now rising, is expected to remain in single digits in 2010. Barring new shocks, the recovery should continue to take root in the remaining months of 2010 and into 2011.

Program performance through the first half of 2010 has been good. Despite a notable shock to VAT on imports, the government was able to boost domestic tax revenue and limit the shortfall in overall tax collections. Social spending through June fell short of expectations,

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<sup>15</sup> The Extended Credit Facility (ECF) has replaced the Poverty Reduction and Growth Facility (PRGF) as the Fund's main tool for medium-term financial support to low-income countries by providing a higher level of access to financing, more concessional terms, enhanced flexibility in program design features, and more focused streamlined conditionality. Financing under the ECF carries a zero interest rate, with a grace period of 5½ years, and a final maturity of 10 years (<http://www.imf.org/external/np/exr/facts/ecf.htm>). The Fund reviews the level of interest rates for all concessional facilities every two years.

<sup>16</sup> The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

however, and addressing this shortfall should be a priority for the remainder of the year given the high incidence of poverty and pressing social needs.

The overall fiscal deficit target for 2011 (at 1 percent of GDP) is appropriate, given pressing social and infrastructure needs. Over the medium term, the fiscal accounts (excluding the foreign-financed public investment program) will need to be broadly in balance to preserve fiscal and debt sustainability, as well as ease pressures on the balance of payments. On monetary policy, provision of liquidity support to commercial banks has been important during the economic downturn but should be phased out as conditions improve. Exchange rate flexibility will also be necessary to ensure orderly adjustment while continuing to build foreign exchange reserves.

Good progress on structural reform has been made in a number of areas, but it is important to maintain momentum—particularly with respect to measures on transparency in the state enterprise sector. Addressing underlying weaknesses in this sector, moving expeditiously in implementing the cotton debt resolution, strengthening the financial system, and pressing ahead with public financial management and revenue reforms will be essential to ensuring high and sustained rates of economic growth.

Continued successful program implementation under the ECF arrangement will help to strengthen Tajikistan's resilience to external shocks, improve the prospects for stable and sustained economic growth and poverty reduction, and help to mobilize external support.